# The MAGAZINE of WALL STREET

and BUSINESS ANALYST



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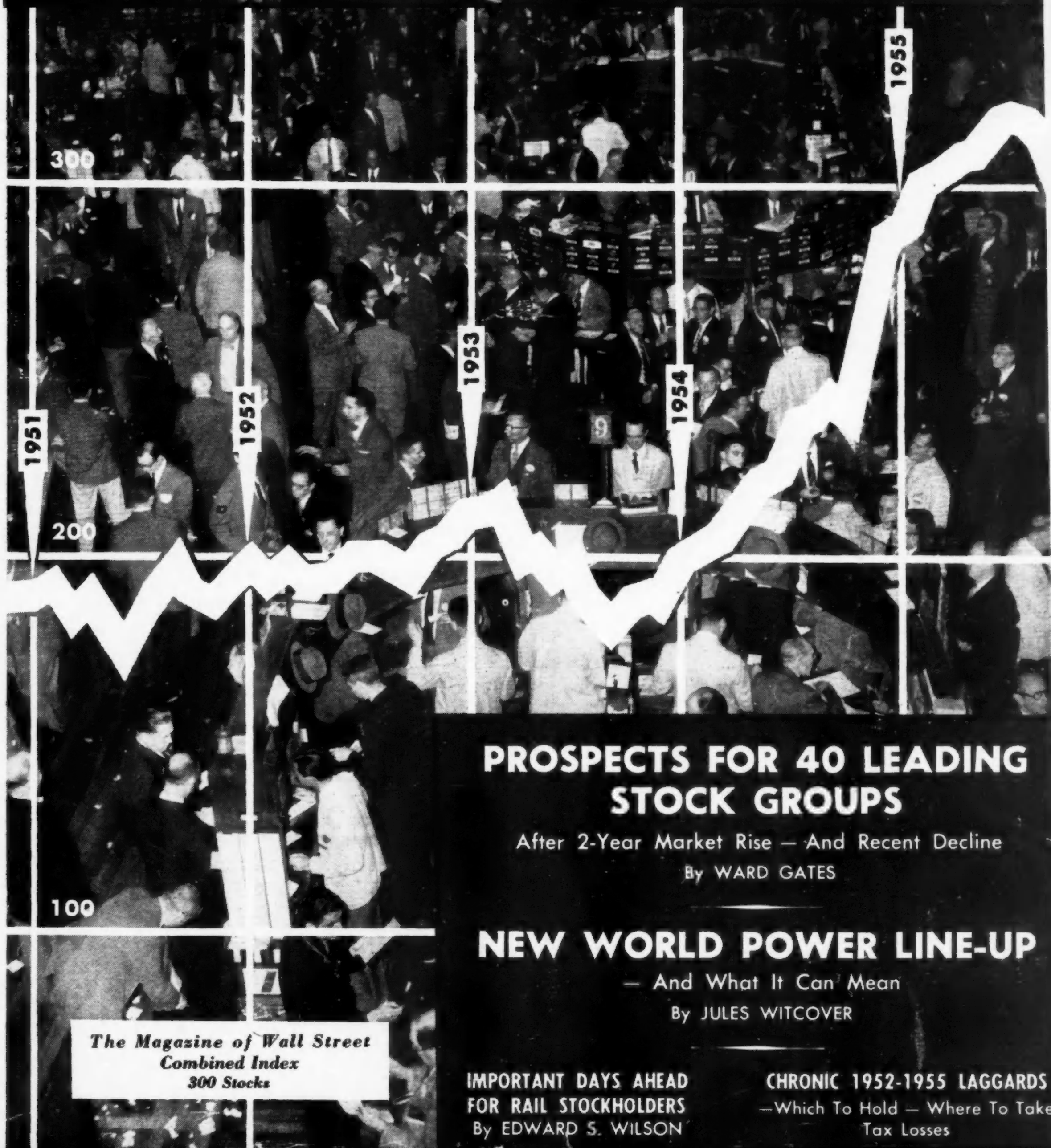



The Magazine of Wall Street
Combined Index
300 Stocks

## PROSPECTS FOR 40 LEADING STOCK GROUPS

After 2-Year Market Rise — And Recent Decline

By WARD GATES

## NEW WORLD POWER LINE-UP

— And What It Can Mean

By JULES WITCOVER

**IMPORTANT DAYS AHEAD FOR RAIL STOCKHOLDERS**
By EDWARD S. WILSON

**CHRONIC 1952-1955 LAGGARDS**
—Which To Hold — Where To Take Tax Losses

# What's Happening to the Big Harvest...

## Here's the story of how steel brings America's rich harvest to your table . . .

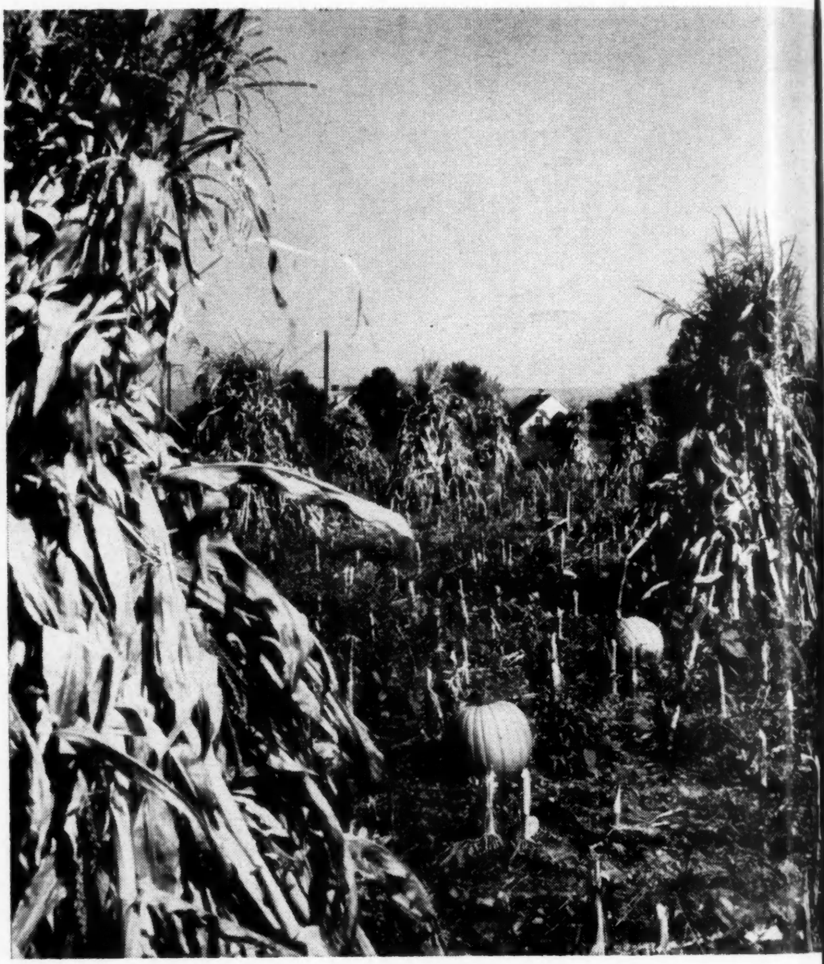
Harvest time.

Pumpkins and cornstalks. Warm, hazy days. Slightly chilly nights.

The earth leans back to rest. Man has taken its gifts, moved them along to your table.

Just the wonders of how much we grow, how much we harvest, how much it takes to feed the hunger of millions, might obscure another wonder—

Imagine, *half* of our entire food supply is preserved in *tin cans!*



**Look at these figures**

The remarkable volume and variety of foods brought to you in cans certainly attest to the importance of this all-purpose container.

On an average, 80 percent of all sweet corn and tomatoes harvested is canned. About 75 percent of the green peas and beets, and about one-half of the asparagus, are canned.

And as to fruit—almost 60 percent of sour cherries, 45 to 50 percent of peaches, pears, apricots, are brought to you in tin cans. Besides, a tremendous variety of juices, soups, meat, fish, milk and other specialties.

**Advantages of tin cans**

There are, of course, many reasons why so much of our food comes in the tin can.

It is strong, approximately 99 percent *steel*, with a coating of tin to make it resistant to corrosion. It won't break or shatter. It's easy to carry.

It's compact, adding only the tiniest fraction of an inch to the dimensions of its contents. It's sanitary, too, used only once. It's economical, saving greatly in automatic canning, shipping weight, and storage space. And it's the most versatile container, used for foods, paints, oils, soaps, beverages and many, many more things.

**National's role**

Our Weirton Steel Company is a leading supplier of the electrolytic and hot-dipped tin plate required for the more than 35 billion cans made each year.

Of course, tin plate is just one of the many steels made by National Steel. Our research and production men work closely with customers in many fields to provide steels for the better products of all American industry.

At National Steel, it is our constant goal to produce still better and better steels of the quality and in the quantity wanted, when they are wanted, at the lowest possible cost to our customers.

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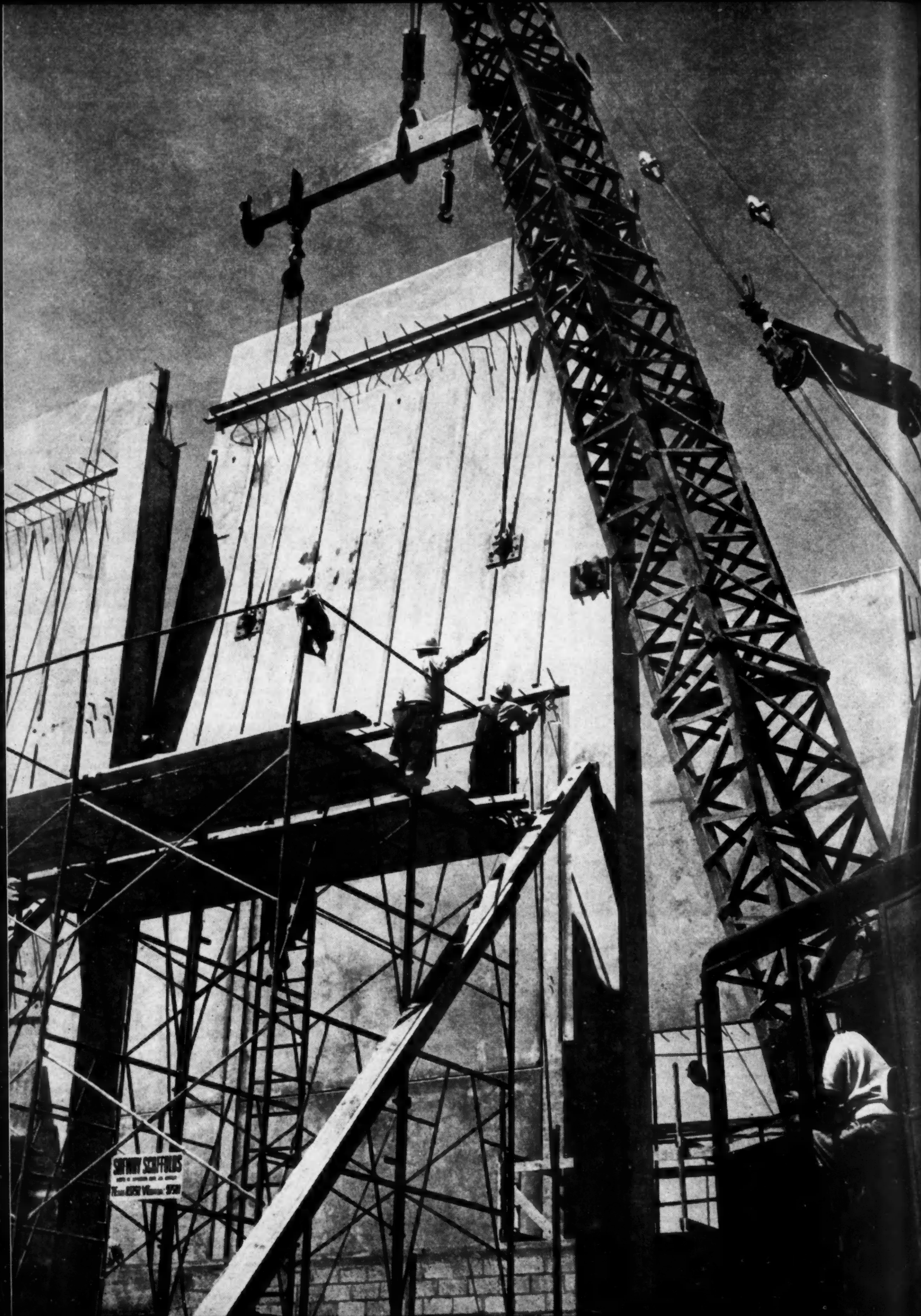


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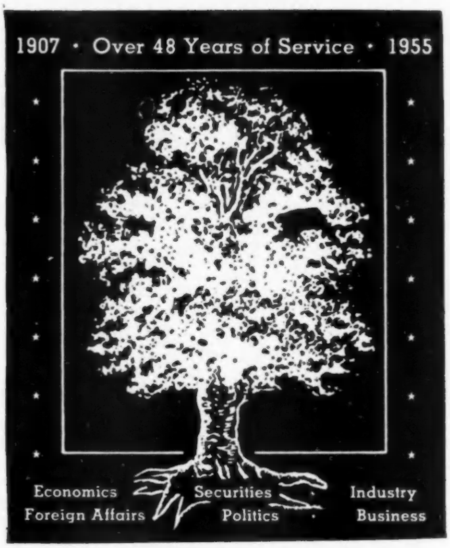
# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. D. KING, *Managing Editor*


## The Trend of Events

**PRE-CAMPAIGN STRATEGY . . .** The uncertainty injected into the political outlook for 1956 by President Eisenhower's illness necessarily has affected the planning of both parties. Up to the time he was stricken, it had been generally held that the President would be the Republican nominee and that he would be invincible against any Democratic candidate. Now the situation has radically changed. The Republicans must cast about for a new standard-bearer. In the process, basic differences between leaders of that party, partially concealed up to now through the over-powering prestige of the President, are likely to become more visible to the public gaze in coming months.

The Democrats are not in a much better position. Now that the Democratic nomination has become much more valuable through the expected withdrawal of President Eisenhower from the race, and the enhancement, thereby, of Democratic prospects, rivalry between leading candidates of the party may be expected to become much sharper. In any case, wide-open Conventions for both parties and a bitter electoral struggle seem in store, in contrast to a relatively placid campaign (with its apparently foregone conclusion) had the President been able to run.

Despite the national excitement and hullaballoo we may expect in the 1956 prenomination and election campaigns, it would seem doubtful, considering the desire of the people for Peace and continued Prosperity, that either party would risk defeat by adopting planks in their platforms that might injure these twin pillars of national well-being. This is obviously true of the Republican leaders who will agree, despite previous differences, that the party's best chances would be to run on the President's magnificent record.

In the Democratic party, too, middle-of-the-road Lyndon Johnson and other leaders sharing his realistic outlook are moving to prevent the more radical elements from gaining control of the party apparatus; and, likewise, are making preparations to forestall any possibility of a New Dealish flavor being injected into the party platform.

Such tactics by both party strategists would fit in well with the mood of the country which is violently opposed to having its equanimity disturbed, and sees no reason for a basic change in policies which have brought the nation to its present economic pinnacle.

**THE FEDERAL STOCKPILE . . .** Twice a year, in April and October, the Office of Defense Mobilization reports to Congress on the progress of the Federal stockpiling program. Latest report by Arthur S. Fleming, ODM director, was for the first half of 1955. He said more than a million tons of critical and strategic materials had been bought in the six months, at a cost of $300 million. The stockpile's current value is $4.7 billion.

The stockpiling program, set up under President Truman, doubtless has a long-range value as a step toward preparedness for some future emergency. Moreover, the business community will

*We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*


BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-seven Years of Service"*—1955

be reassured to know that the program is carried out methodically. Nothing could be a greater disservice to the stockpiling idea than to have it perverted into a boondoggling operation, with scarce materials hoarded at some times and dumped on the market at others.

After this has been said, however, there still remains room for some doubts. Part of the increase reported in the stockpile's value was attributed to higher prices for rubber, aluminum and copper. Aluminum has not been a bad actor as to price this year, but certainly 50-cent copper from custom smelters, and 48-cent rubber in the New York wholesale market, have been signs that those prices were out of line. Rubber has broken to 40 cents from the year's highs, and copper has returned to the 43-cent peak the major mining companies set. Was any copper or rubber bought at the year's peaks, and if so how much? It would be reassuring to know that this program is in the hands of commodity traders who know what they are doing.

There is a larger question, that of inventory-building in general. Already, since World War II, there have been two brief but uncomfortable recessions—those of 1949 and 1953—caused by runups and then rundowns in inventories. While it would be dangerous in the extreme, as we said above, to attempt counter-cyclical action with the stockpile, it also appears to be the least bit foolhardy to buy for the stockpile at times when industry in general is buying heavily for inventory.

The equilibrium position in between will be difficult to find, but it seems to The Magazine of Wall Street that the stockpiling authorities owe it to the long-suffering taxpayer to make sure that stockpiling is carried out with the least incitement to new inflation as well as the least possible dollar cost. If anything of that kind is being done, it is not being very well-publicized.

Another consideration must be the nature of the stockpile itself. Ultimately, it is supposed to contain \$10.4 billion of 75 strategic and critical materials. With the vast changes taking place in the methods of making war, of which we hear almost daily, it would be comforting to have a review of the stockpile goals every now and then, to be sure they aim at the goods we shall need to fight the next war and not the last one.

After all, if it were found possible to take a part of this sum off the budget—and at the same time lessen competition for private purchasers in the wares of which the stockpile consists—individuals might have more of their own money left after the tax collector got through with them.

**BOOM IN WORLD POPULATION . . .** In the past decade, world population has increased by a third of a billion and is now in excess of two and a half billion. This is probably the most significant economic fact of the post-war era, obviously exceeding in long-term importance any other economic or political development of the current period.

The present rate of world population increase is in excess of 30 million annually and will probably reach an annual rate of close to 40 million in another decade. This means that there will be close to 3 billion people on this planet by 1965. By 1985, the United Nations experts have estimated, world population will reach the stupendous figure of 4 billion.

The rate of population growth varies from country to country and, indeed, from continent to continent, but the highest fertility rates are noted in the least industrially advanced nations and, therefore, in the nations least likely to be able to raise production levels sufficient to meet the needs of a swiftly increasing population.

Unless this situation can be radically bettered, and in time, the world may find itself eventually swamped by the menacingly preponderant masses of the economically under-privileged in Asia, Africa and Latin American regions where the population problem is exhibited in its most acute form.

It would seem that collective world statesmanship of the highest order will be needed in order to avert an ultimate catastrophe steadily being brought into focus, as a future possibility, by the enormous economic disparity existing between huge and growing sections of the world's population.

United Nations experts have stated that "ignorance, greed, strife, superstition, and blind adherence to tradition will prevent men from accomplishing works that are in their power even though the alternatives may be misery and starvation". It is for the world's leaders, and for their own sake, for the advanced industrial nations of the world to see to it, that this gloomy prophecy is not permitted to come true.

**HOGS AND POLITICS . . .** To add to the woes of the Republican party strategists as well as farmers, prices for hogs will probably sink lower in the final quarter of the year as the peak slaughtering season hits full stride. Since the production of pork is a highly valuable element in farm economy, this means that the already acute farm problem will become intensified in coming months, and consequently, more of a political factor than ever.

How this chronic political and economic dilemma can be solved is apparently beyond the capabilities of either party. Still, in the farm belt, the Republican party is being held responsible for failing to prevent the decline in farm prices over the past three years. That most of the decline since Korea was due largely to the ineffective policies of the previous Administration cuts little ice among farmers.

In the meantime, farm surpluses are getting well out of hand. Solutions are being offered, mainly with an eye to the farm vote. Some of them are quite silly. Among them, for example, is one whereby the government would lease some 50 or 60 million acres of farm land and remove them from production. In the eyes of the politicians behind this scheme, the cost would be inconsequential, a trifling \$600 million a year. Unfortunately, no plan for crop restriction has really worked though this apparently is no concern of the politicians. As long as the taxpayer can be soaked to finance politically-inspired schemes, professional politicians will back them to the limit, especially in election years.

Under the conditions, no one need be surprised if some sort of a gimmick is used next year with which to impress the farmers. That this will not help an iota in solving the fundamental problem is beside the point—that is, as the politicos see it.

# *As I See It!*

By JOHN CORDELLI

## MOSCOW ROCKS THE BOAT IN THE MIDDLE EAST

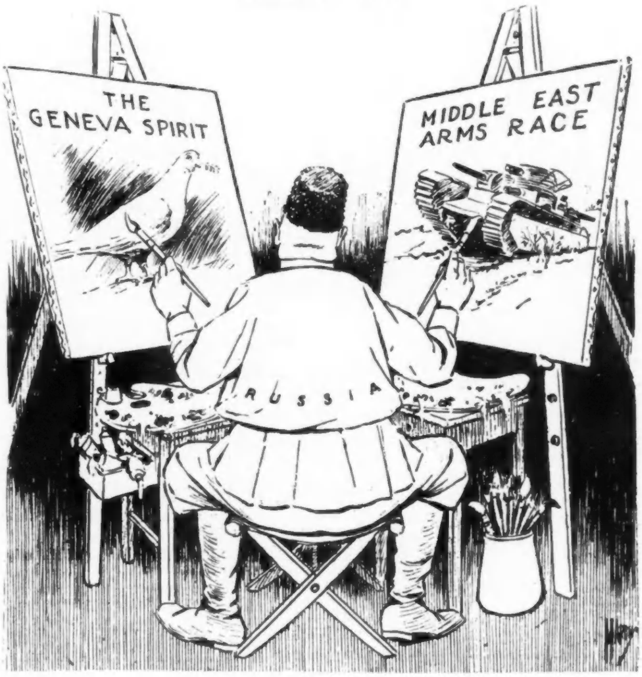
By offering arms to Egypt—through its satellite Czechoslovakia — by intense diplomatic manipulation in the Arab capitals, by offering vast economic aid to these countries, the Kremlin has maneuvered an effective Trojan horse into the highly explosive area of the Middle East. This is palpably far from demonstrating "the spirit of Geneva", but the discrepancy in behavior is by no means an embarrassment to the Russians.

As a blackmail effort to induce concessions from the West in the forthcoming Four-Power Foreign Ministers' meeting in Geneva, insistence of the Soviets on securing an important voice in deciding the destinies of the Middle East is timed to perfection. As an entering wedge into a region which they have tried to penetrate for centuries, under Czarist and communist regimes equally, their maneuvering fits in logically with their long-range plans.

By their current moves they can command events to influence the Geneva Conference in their favor. By increasing their prestige among government leaders in Cairo and the other capitals of the Arab world, they are in a fine position to fish in troubled waters. For these leaders represent some of the shakiest governments in the world, with only a feeble hold on millions of malcontents among their population, who are being driven to desperation by the stony neglect and indifference of their rulers.

Yet these regions are of the most vital importance to the West. They not only contain most of the world's oil riches but their strategic value and the vast land masses they dispose are enormous. If, at the very least, the Kremlin can either divert the loyalty of the Arab leaders away from Washington, London and Paris to itself; or, if, indeed, it can finally manage to win large sections of the Arab populace over to communism, an immense blow will have been dealt to the cause of the free nations.

**AMBIDEXTROUS**




*Marcus in the N. Y. Times*

Let there be no question that Soviet influence is accountable for the enormous resurgence of so-called nationalism, not only in the Middle East, but in North Africa, and in Asia. That great apostle of democracy and freedom, Mr. Nehru, has seen to that. Ever since the Bandung Conference, it has been evident that he would stop at no lengths to stir up the entire Arab world against the West, on the specious plea of defending them against colonialism and imperialism. Yet, he is, in effect the ally of the greatest imperial power of all —Soviet Russia.

From all the evidence at hand, we have been hoodwinked on a grand scale. We have poured out billions of relief money to destitute peoples, in the hope of saving them from starvation, with a good part of it finding its way into the pockets of the men entrenched in corrupt governments. We have given arms and sent specialists to teach the art of using modern industrial and agricultural equipment. Much of this has gone to nations like India, which, in return for the gift, is helping to dig the grave of the Western powers in the Arab world, and whose representatives have brazenly helped to weaken the influence of the Western powers in the United Nations.

There can be no question now that our position in the Middle East must be repaired, and at once. The danger of a total collapse of Western power and prestige in that part of the world is imminent. Our once favorable position (*Please turn to page* 168)

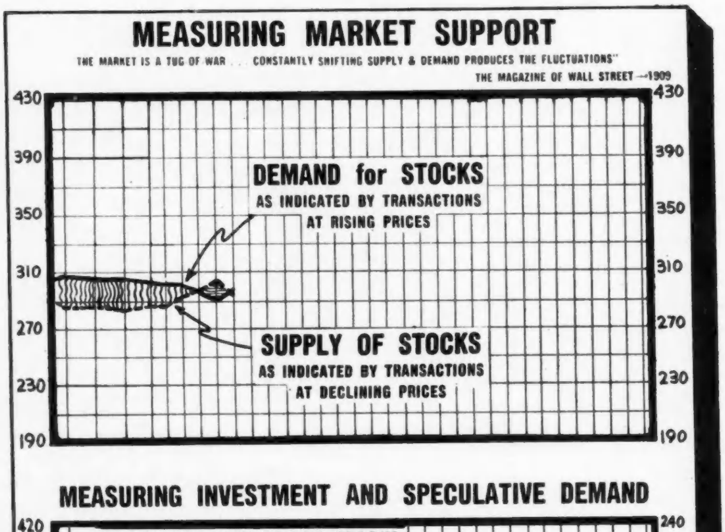
# Realistic Appraisal of Market Trends

**The recent sharp stock market break has now been followed by a substantial rally. A basis for anything better than trading-range fluctuation, possibly for some time to come, is not apparent. Defer enlarging over-all stock holdings. Pare over-speculative positions on rallies. Examine holdings critically with an eye to improving quality and reducing risk.**

**By A. T. MILLER**

The low point to date of the market break touched off by news of President Eisenhower's heart impairment was reached in the October 11 trading session. At that level the fall from the September highs approximated 10% for the Dow industrial average, a little over 11% for rails and nearly 8% for the utility average — by far the widest sell-off seen since start of the major rise from the September, 1953 lows. It was followed by a good rally, under industrial leadership, which gained some momentum last week, with trading volume expanding moderately on strength, but remaining on the light side as compared both with volume in the September 26-October 11 sessions of heaviest selling and with activity on phases of advance earlier this year, when such activity was pronounced.

At last week's best closing levels, the industrial average had made up about 40% of the fall to the October 11 low, rails roughly 32%, the utility average about 21%. The scope and duration of the rally indicate, of course, that the impact of the surprise news about the President has worn off, as market news shocks usually do within a few weeks. It may well be that the recent lows will hold for at least some time to come, since the market does not as a rule discount the same thing twice, although some degree of reaction will no doubt follow the present rally, and thus provide a further test.



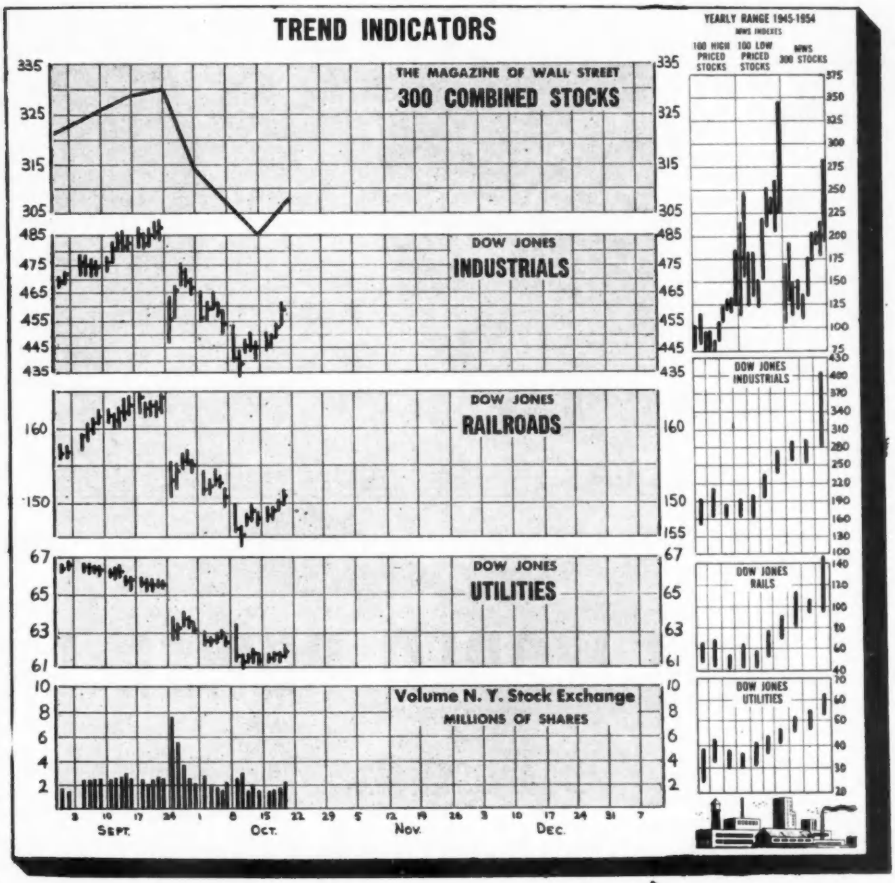

### The Present Outlook

The identities of the Republican and Democratic 1956 Presidential nominees cannot be known for a great many months. All indications are that the Democratic convention will be "wide open". That may also be true of the Republican convention, if the President avoids indicating any preference. If there is no business recession meanwhile, the outcome of the election itself could be guesswork until the votes are counted. Hence, political considerations will get less emphasis over the medium term than in recent weeks, the trends of business, earnings and dividends relatively more consideration.

Nevertheless, there has been a change — the virtually certain elimination of Eisenhower from politics at the end of his present terms — which cannot be undone; and its significance must not be minimized. Although it cannot be definitely measured, it is a fact that "Eisenhower confidence" has played a substantial part in the market's large rise. It is a fact that political uncertainty and conjecture have replaced the previous confident investment assumption that the Eisenhower policies would continue for another five years. And it is a fact that the political "climate" can influence market sentiment in some degree for some time.

Our conclusion is that bullish enthusiasm probably will not return to its previous high pitch within the presently foreseeable future. This does

not mean that investors will resume selling because of political uncertainty. (Actually, not many sold on the break, the damage resulting largely from reduced demand in a thin market). It suggests to us that buyers probably will be more conservative, and more exacting in their valuation standards as applied to individual stocks, than was so prior to the recent break. If this view is correct, it will be difficult for the averages to get back to or above their September highs during the rest of this year or early 1956. What happens after that — possibly even what happens somewhat sooner — should depend primarily on business developments.




As long as the business picture is bullish, it is hard to envision anything worse than a selective, trading-range market any time soon, perhaps with the averages confined to the September 23-October 11 range. In this view, any significant extension of the recent lows would seem to hinge on development of signs for the worse in the business outlook, in combination with, rather than re-emphasis on, political uncertainty.

There are no such signs visible as yet. Industrial production, employment, personal income and consumer spending are at record levels. Although the forthcoming statistics will bear watching, we see no evidence so far of any tendency for business concerns to cut back previously scheduled plant-equipment outlays or to reverse recent moderate inventory expansion, in line with orders and sales.

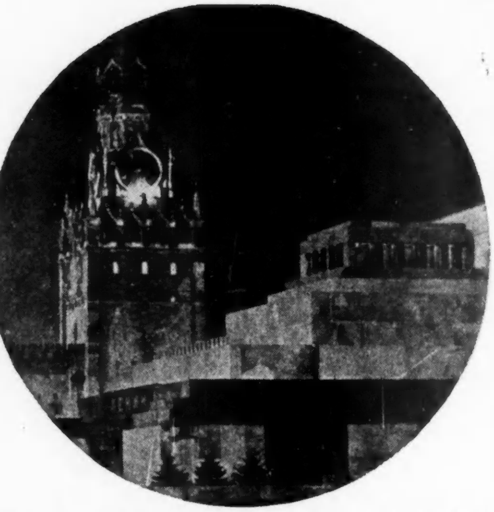
The third-quarter earnings reports, beginning to come out in substantial numbers as this is written, will make a good showing. So will those for the final quarter and the full year. Dividends continue to trend up, each week bringing a number of increased declarations. Although many stocks, especially those most popular for long-pull institutional buying, remain amply priced or over-priced, over-all valuations, as measured by the averages, are not extreme (and were not at the September highs), if judged by the criteria of past bull-market highs. Thus, the Dow industrial average now stands at about 13 times likely 1955 earnings, against ratios of 19.1, 16.9 and 15.6, respectively, at the 1929, 1937 and 1946 market tops. It would take merely a projection of the dividend-rate rise of the first nine months—whereas a larger gain is almost certain in the current quarter — to lift the full-year total on the average to $20, on which the current yield figures over 4.3%, against yields of 3.36% and 3.53% at the 1929 and 1946 market tops; and exceeded only by 4.51% at the 1937 (New Deal) top.

### Sensible Policy Now

All of this is on the supporting side for the market, but much of it was certainly discounted by the rise to the September highs. So it remains to be seen how much "hay" the market can make out of good fourth-quarter dividend and business news; and that could be a revealing test. Moreover, there are some questions in the 1956 business outlook. Is the auto industry right in its optimistic sales projections? Will the September decline in housing starts mushroom? Will the monetary authorities relax their credit-restriction policy? They are not yet doing so beyond a sparing supply of funds for normal seasonal bank loan extension; and hence are "betting" on a continuing boom.

We advise against expanding essentially speculative positions here. If you do not have conservative reserves, take some profits now. If you have losses on some undesirable stocks (which you regret having bought) take them to balance against gains or earned income (up to $1,000) for tax purposes. Examine your portfolio realistically. Put the emphasis on quality, on sound values, on prudence. Obviously, a greater portion of one's investment funds should now be in defensive securities — bonds, preferred stocks and high-grade stable-income stocks — than was called for at lower market levels.

—Monday, October 24.



**PART I**

**By JULES WITCOVER**

# NEW WORLD POWER LINE-UP

*(Editor's Note: This is the first of two instalments in which the author states the overall problem relating to the post-war struggle between the free world and the Soviet empire. The concluding instalment will contain an appraisal of the present status of the United States and the free world with respect to the all-important question: are we gaining or losing in this world-wide and protracted struggle? We consider this article to be of the highest importance as affording the reader an accurate picture of the relative strength of the two sides, from the economic and political standpoints, as well as the military.)*

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Ten eventful years have passed since fascism was brought to its knees and the world, as it had done so many times before, looked ahead to a "permanent" peace. Within those ten years, the threat of another, greater totalitarian idea has dimmed that hope and has kindled in its place the most ominous global crisis of all time.

The United States, rich by every economic and moral standard, logically has taken the front position in the ranks of the free world. American foreign policy consequently has become the cornerstone of all resistance to Communism wherever it threatens ourselves and our democratic allies, and on the principles and administration of that policy the fight will stand or fall.

Where, in ten eventful years, has this foreign policy taken us? Has it been effective in strengthening our own position in the world power struggle, and has it bolstered our friends? Or are we merely holding our own, or perhaps losing ground in this ideological marathon? If it has been effective, can it be improved? And if it has not, is it likely to be in for a change?

These are questions that deserve reflection, now particularly, when talk of balancing the huge federal budget focuses sharply on our entire foreign aid scheme—military, economic, technical. By setting down what our policies have accomplished, and what they have not, the road ahead may be that much easier to plot.

First of all, it is necessary to cut through political propaganda of both parties and establish one fact: American foreign policy for the last ten years, regardless of changes in national legislative and executive control between Democrats and Republicans has been basically a continuous policy.

Except for differences in approach and in emphasis, some of them admittedly important and effective, both parties have pursued the same general objectives in foreign policy—consolidation of territories and peoples already friendly or at least not antagonistic to the free world, and containment of Communism within the boundaries it had established for itself in the immediate post-war period.

A look at some of the main features of our foreign policy today provides ample proof of its continuity through the Truman and Eisenhower Administrations. Point Four technical aid, initiated under President Truman, still flows to our allies, and the North Atlantic Treaty Organization, to which General Eisenhower himself was Truman's chief emissary scarcely four years ago, remains the hub of all European defense planning.

Whether Republicans care to admit it or not, the few voices of dissension in the foreign affairs-minded Senate even now are from their side of the aisle, and GOP campaign pledges of 1952 to "unleash" Chiang Kai-shek and to take actions toward the liberation of satellite states long since have faded

away. The word containment no longer is used to describe our chief tactic against Communism, but in light of our actions it still fills the bill.

If it is so that our foreign policy has undergone no real, basic change in ten years, there must be a good reason. There is, and it is this: despite constant criticisms from political factions in both parties against the party in power at the moment, there is not one single responsible element anywhere in the government that would make a basic, clear-cut turnabout in that foreign policy if it had the chance.

This seems like a strong claim to make, but it withstands close scrutiny. Of all the responsible elements in government today, the one that is widely recognized as the most formidable, outspoken foreign-policy critic is that of the conservative faction within the Republican party itself.

This faction's foremost spokesman, Senate Minority Leader William F. Knowland of California, time and again has advocated not a radical change in our foreign policy, but a more intensive, aggressive application of the one we have been following for ten years. Where in the past the conservative wing of the Republican party had advocated varying degrees of isolationism, there now is the most forceful feeling for a greater, tougher involvement in world affairs as they relate to the menace of Communism.

### "Preventative War" Out

This attitude is one of emphasis, not of principle, though a markedly sharp emphasis it is. Though Senator Knowland and others would certainly agree they would not follow a policy of containment under any name if they had their way, these men certainly would not claim to advocate an actual armed intervention in behalf of any of the satellite countries by the United States.

Neither would Knowland and others say they favored any preventative war, either in China or elsewhere. It must be remembered that it was this very group that was so critical of President Truman's decision to launch a preventative war of sorts in Korea in 1949, particularly the way Congress was by-passed in making it.

The fact that advocates of a tougher, "liberation-minded" foreign policy have not been able to make a dent in the thinking of fellow Republicans who are formulating American policy is a fair measure of the strength enjoyed by this dissident voice on overseas military affairs. As for the Democrats, there is no responsible criticism of any real magnitude being aired from any quarter in the party, even though Republicans run the State Department.

Our foreign policy, therefore, is resolved into this situation: it is what it is simply because its basic elements are considered by an overwhelming majority of American political opinion to be the best ones open to us. In light of this general agreement, the framework of this policy is not going to be changed in any radical way in the foreseeable future, regardless of which national party occupies the White House and the State Department.

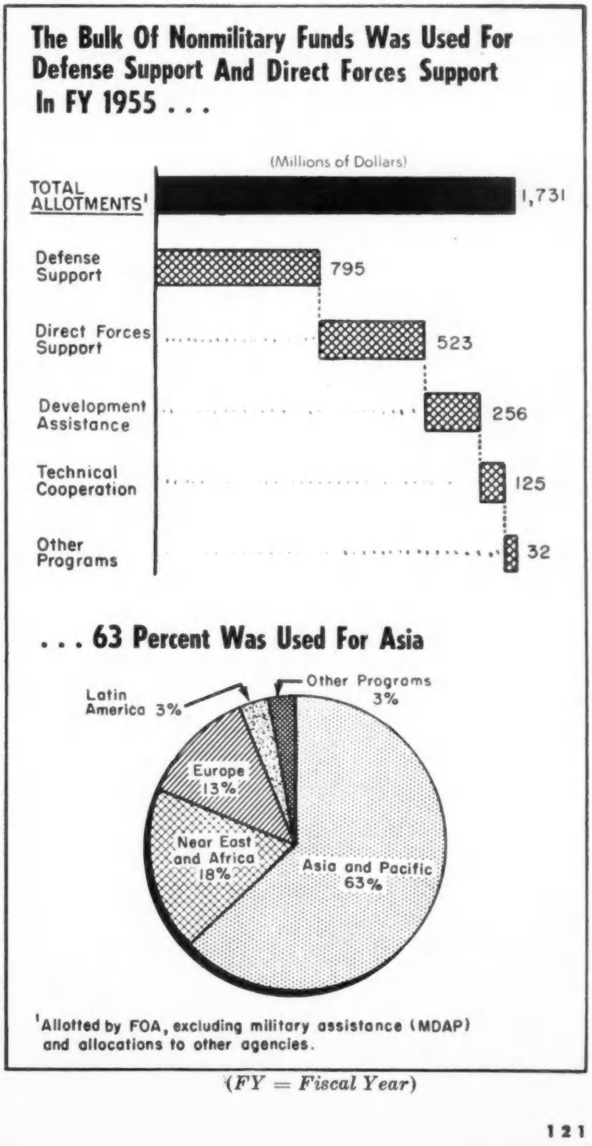
From all this it is obvious that changes can only be changes of emphasis, method or degree. In examining our foreign policy, then, the realistic question must not be, should we do this or that, but rather how can we accomplish this or that more effectively, more economically or more advantageously from the American viewpoint?

A foreign policy, of course, is a complexity of ideas, stresses and objectives that reaches into every phase of the international scene—relative military strengths, financial and industrial potentials, geographic and political considerations and the impact all these things have in different ways on people of different social, economic and political backgrounds. To evaluate our own policy, it may be convenient first to look at it in terms of its effect on the overall world power lineup, and to consider its workings within the free world community in a later examination.

### Communist Thrust Blunted

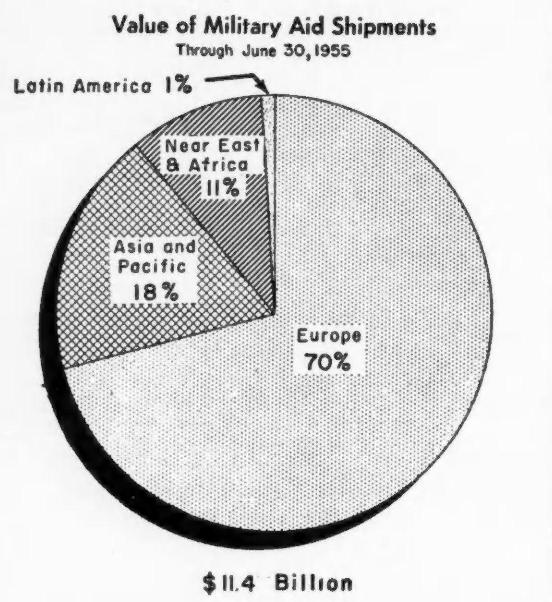
In ten years, the United States has been in and out of a war, minor by modern standards perhaps, but a war just the same. Prior to American armed intervention in Korea, Communism had been attempting to expand in all directions, using weapons of subversion mostly but not shying away from the use of force where necessary.

Since the conclusion of an armistice in Korea in 1953, the use of force by the Communist world has




(*FY* = *Fiscal Year*)

**The U.S. Has Shipped Over $11 Billion Worth Of Military Items To Free World Countries**




been greatly curtailed, with the notable exception of the war in Indo-China, which had been erupting off and on before, during, and after Korea. American resistance in Korea, coupled with our own expanding military defenses, progress in the collective security field and the advent of total-destruction weapons have contributed to a recognition among the Communist bloc that war well may have become an obsolete means for gaining any victory in the foreign-policy field.

Whether or not the "spirit of Geneva" reflects any basic change in Communist objectives—and there is no earthly reason to suppose it does—the relaxation of tensions at least indicates a recognition by the Soviets that they must try ways other than force to obtain those objectives. We probably cannot hope for any better indication that the military phase of our foreign policy is impressing the Russians. If there has been one message we have been able to get through to them in ten years, it is the one that we are strong enough to stop them by force if they dare try to use force against us or our allies.

The only responsible questions that can be raised on this phase of our policy, it would seem, are whether we have gone far enough, and whether the monumental cost of our military might endangers our national solvency and our ability to lead the free world's fight.

In a country whose citizens are sympathetic to enslaved peoples but horrified at the thought of another global war, to go any further—that is, to "get tougher"—might create an uproar and panic that would far exceed the cries now heard in support of such a more forceful policy.

The question of expense, however, is one that can and should stand closer and deeper examination than it has been given. While it is universally agreed that the defense budget ought not to be pared by one cent if national security is to be endangered, there would seem to be considerable justification for the viewpoint that nuclear weapons may be bringing us to a point of military saturation that will allow for some real economies

Sen. Alexander Wiley of Wisconsin, ranking Republican on the Foreign Relations Committee, made this point in a speech at Stephens College in Missouri earlier this year:

"In dealing with nuclear weapons, you very quickly reach a point beyond which superiority becomes meaningless. If each side has the power to inflict a mortal blow upon the other, then it doesn't matter if one side has twice as much as the other.

"For example: If I am pointing a .38-caliber pistol at you, and you are pointing a B-B gun at me, I have a very great superiority. But if we each increase our strength, so that I am pointing a .45-caliber pistol at you and you are pointing a .38-caliber pistol at me, then, although I would still have a superiority of sorts, it wouldn't really do me very much good in and of itself."

The question of how much should be spent for the military establishment always has been a headache for Congress. It has been practically traditional that career military men have vied intensely against each other to get the biggest share of the defense nut for their particular branch of service, and the competition has spiralled the cost of defense from year to year.

Now, as greater and greater emphasis is being placed on air power to the exclusion of the Army and to a lesser extent the Navy, the scramble for appropriations has become more intense than ever. As the defense budget swells, a greater accountability by military men to the civilian authority, Congress, is both constitutionally proper and economically desirable.

### East-West Economic Relations

As our armed strength has grown and had its effect on Soviet policy, the second major phase of foreign relations — economics — has been getting increasing attention from both sides. In this field the efforts of American policy have not been quite so apparent in forcing a change of attitude behind the Iron Curtain. For that reason, it may be a field where considerable adjustments are in order.

Our chief activities in economics as of now, with emphasis on foreign trade and industrial aid, lie in our relations with our own Western bloc rather than in American-Soviet arrangements, and that larger intramural aspect will be discussed at length in the second part of this article. But some attention is due to overall East-West economic relations, which have been stifled by military considerations for the most part but have shown signs of activity of late, as a by-product of the "spirit of Geneva."

Although the conservative Republican elements in Congress have had little impact on our military posture, they have raised a voice to be reckoned with on matters of trade with the Soviet bloc. Again, Senator Knowland has put forth the most forceful arguments for greater curtailment of trade with any Iron Curtain countries. He says:

"In the economic field, I would recommend that our current policy of embargoing trade of strategic goods with Communist countries be strengthened and

strictly enforced. A corollary of this proposal is to secure an agreement from our allies to cooperate with us in this endeavor. Economic distresses are presently the greatest source of trouble for Communist plans and an increasing inability to secure items which constitute the sinews of war-making potential could have a great effect on the men in the Kremlin."

This has been the predominant viewpoint among Americans and it presumably will continue to be the predominant one in spite of friendly gestures from Moscow. In addition to the danger of having trade of strategic materials backfire on us in the form of military attack, the point that Knowland makes concerning internal Soviet difficulties and our interest in having them continue is a strong one that may run counter to the current cooperative atmosphere but nevertheless makes hard sense in terms of pure self-interest.

### U. S. Policies Force Revision in Soviet Tactics

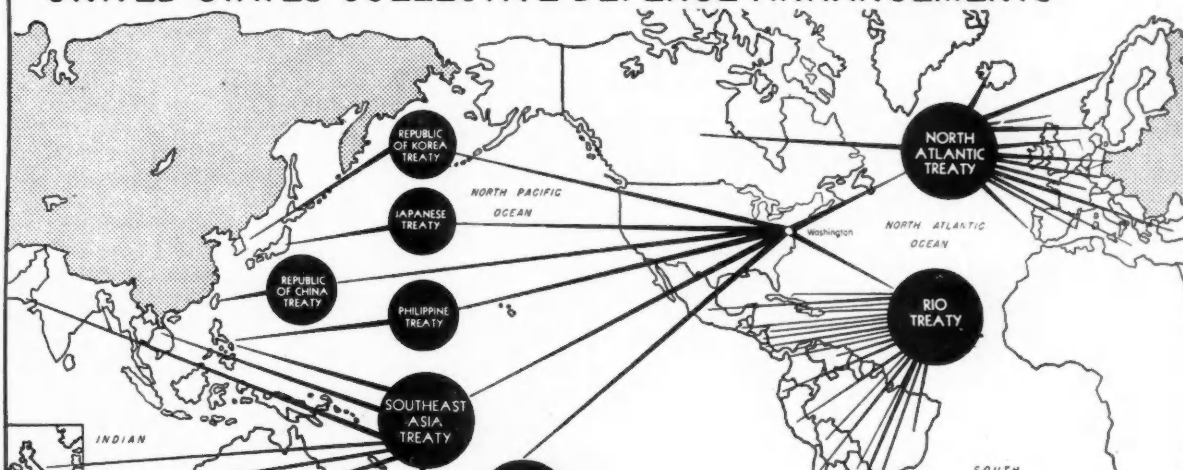
There is no way of knowing how deeply our restricted trade with the Communist countries has hurt them economically, but it can be assumed by their lagging production of consumer goods and the low standard of living of their people that it has been a thorny problem for them. In addition to denying Red countries materials for boosting their war potential, our denial of agricultural and industrial products inevitably has forced them to deploy some of their military energies to basic tasks of staying alive, notably agriculture.

It may not be far-fetched to say that our refusal to trade with Communism ultimately had a profound effect on the internal upheaval that saw the downgrading of Georgi Malenkov and the emergence of the Bulganin-Khruschev-Zhukov partnership. The apparent failure of Malenkov's agricultural-emphasis program well may have been the determining factor in the events leading up to the current friendly surface atmosphere emanating from the Kremlin. By breaking down existing trade barriers, the Soviets could get foodstuffs and heavy farm machinery from the West — incidentally using the hated American capitalism to buoy up their own sagging collectivism — and be free to channel their productive efforts toward stocking their own arsenal and those of their satellites.

A stiffer trade embargo, then, is one way of bolstering our foreign policy that has a strong voice in Washington legislative halls backed up by wide popular support. If greater emphasis is to be directed to part of American policy, this phase is one that not only is in need of strengthening but can be strengthened in the practical view.

Sentiment for tougher trade relations with Russia, of course, is by no means overwhelming. From the Geneva Conference a (*Please turn to page* 158)

## UNITED STATES COLLECTIVE DEFENSE ARRANGEMENTS




**NORTH ATLANTIC TREATY**
UNITED STATES, CANADA, ICELAND, NORWAY, UNITED KINGDOM, NETHERLANDS, DENMARK, BELGIUM, LUXEMBOURG, PORTUGAL, FRANCE, ITALY, GREECE, TURKEY, FEDERAL REPUBLIC OF GERMANY

**RIO TREATY**
UNITED STATES, MEXICO, CUBA, HAITI, DOMINICAN REPUBLIC, HONDURAS, GUATEMALA, EL SALVADOR, NICARAGUA, COSTA RICA, PANAMA, COLOMBIA, VENEZUELA, ECUADOR, PERU, BRAZIL, BOLIVIA, PARAGUAY, CHILE, ARGENTINA, URUGUAY

**ANZUS TREATY**
UNITED STATES, NEW ZEALAND, AUSTRALIA

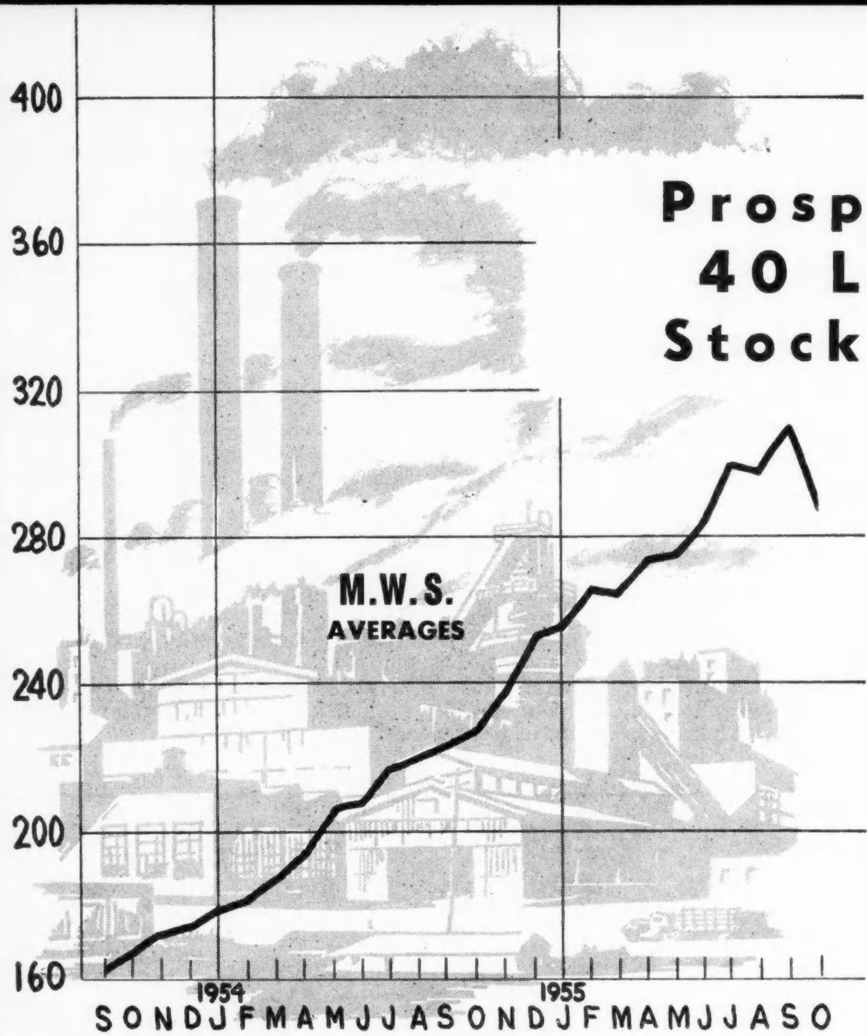
**PHILIPPINE TREATY**
UNITED STATES, PHILIPPINES

**JAPANESE TREATY**
UNITED STATES, JAPAN

**REPUBLIC OF KOREA (South Korea) TREATY**
UNITED STATES, REPUBLIC OF KOREA

**SOUTHEAST ASIA TREATY**
UNITED STATES, UNITED KINGDOM, FRANCE, NEW ZEALAND, AUSTRALIA, PHILIPPINES, THAILAND, PAKISTAN

**REPUBLIC OF CHINA (Formosa) TREATY**
UNITED STATES, REPUBLIC OF CHINA (Formosa)




# Prospects for 40 Leading Stock Groups

## After 2 Years of Market Rise—and Recent Decline

By WARD GATES

The habit of thinking in terms of the "averages" is so strongly ingrained among investors who follow the daily course of the market that they tend to forget how misleading such a yardstick of market trends can be. While the more sensitive market "averages" often indicate whether the general pulse of the market is strong or weak, they cast little or no light on the movement of stock groups and individual stocks. Yet, a clear picture of the trend in stock groups and representative issues within the groups, give not only a more detailed but a much more accurate picture of actual market conditions.

As a rule, stocks within a given group tend to move more or less in the same general direction though they do not necessarily move at one and the same time. However, they do tend to move in the same direction because practically all companies represented by the particular group of stocks to which they belong are normally affected by the same general conditions within the industry. Yet, they may not be so affected to the same degree and this sometimes leads to diverse movements within the group. Thus, while stocks of both strong and weak companies within a given group normally move in an upward direction when the general trend of stocks is broadly upward, the stronger issues are much more likely to move ahead rapidly than the weaker ones which may lag for some time, until their companies also commence to share substantially in the general prosperity for the industry. Contrariwise, when conditions for an industry turn unfavorable, stocks of the more strongly entrenched companies are more likely to resist the downward pull of prices automatically set in motion than the weaker ones which are the first to feel the effects. Hence, the composite stock price index for individual groups may tend to obscure the trend for individual stocks within that group, just as the trend of the general averages gives little or no information on the movement of the individual groups.

A study of group action is valuable, particularly when it is related to a study of other groups. One can tell in this way which groups are moving ahead, which are falling behind and which are, more or less, standing still. Viewed against the background of the general market action, such information can be highly suggestive. When it is coupled with accurate knowledge of the action of individual stocks within the groups, a useful picture can be had of

the trend of these issues.

In this study, we have undertaken to trace the trend of 40 representative groups of stocks compiled from The Magazine of Wall Street Stock Index (appearing regularly in the Business Analyst) during the entire period of the current phase of the bull market, or from September, 1953, when it started, to the end of September, 1955, when it reached its peak. Since then, of course, stocks have been, more or less, in a decline after the break of September 26, when the news of President Eisenhower's illness first was reflected in the market. In this study, we are concerned mainly with how these 40 groups acted during the two years of rising prices and the following break.

### Technical Action

Based on this action, we have arrived at certain conclusions regarding their relative position at this time. This we will attempt to state in the following pages.

For the purposes of this analysis we have assumed that the economic trends of these industries will not vary greatly from the present in the months directly ahead. We are able, therefore, to concentrate on the technical action of the group as throwing essential light on their immediate prospects.

In order to give some interesting sidelights on the action of the various groups, we have also described the action of a number of important stocks, two from each of several groups that are prominent in market leadership.

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The most direct method of viewing the market action of the 40 groups under review in this article is to relate it to The Magazine of Wall Street Common Stock Index (appearing regularly in each issue) and which we have chosen in preference to the Dow averages, because it is more representative of the market as a whole. The Dow averages, as everyone knows, concentrates on the "blue chips."

From the low of September, 1953, to the high of September, 1955—the market peak—the 300 Combined Stocks from which our Index is computed, showed a gain of 86%. Against this percentage gain, and in order of the size of their rise during the 2-year bull market period, the following groups showed the largest percentage increase: aluminum (356%); aircraft (198%); business machines (171%); paper (168%); steel (161%); copper (151%); tire & rubber (146%); amusements (129%); airlines (122%); construction (119%) and mail order (116%).

From these figures, it can be seen that the 11 groups cited stood out among all others with respect to market performance. Even for those who are more or less familiar with market action in the past two years, it may come as a surprise to note that two groups that were not much in the limelight—amusements and mail order—nevertheless scored substantial advances percentagewise. The improvement in earnings for the amusement group, which became apparent a year ago, was responsible for the vastly improved action of the shares. In the mail-order group, the rise of Sears, Roebuck and, to a lesser extent, Montgomery Ward raised the percentage gain average for the group, as a whole.

### Individual Group Action

It should be noted that in the 11 groups mentioned above, gains in market price did not occur at identical periods. Thus, aircrafts made their highs long before the aluminum group; coppers made a belated gain toward the end of the 2-year period market rise, on the strength of phenomenally high prices for the metal, since then wavering. Airlines made their highs a number of months ago and have been, more or less, in a downglide ever since, even before the market break of September 26. The Steel group ploughed ahead, more or less consistently, in 1955, after a rather slow start in 1954 but, in response to their accumulating earnings, were among the strongest groups, up to just before the September 26 - October 7 decline.

While from the above it is clear that 11 (eleven) groups had very large advances for most of the two-year rise, by virtue of that fact alone, they also became vulnerable to sudden shock to a much greater degree than many of the groups which participated relatively little in the general advance.

We have had two important market setbacks this

***How 40 Groups Acted in Two General Market Reactions in 1955***

| | % Loss March 11, '55 (Fulbright investigation) | % Loss Sept. 26-Oct. 7 (break on news of President's illness) | | % Loss March 11, '55 (Fulbright investigation) | % Loss Sept. 26-Oct. 7 (break on news of President's illness) |
|---|---|---|---|---|---|
| 300 Combined* | 5.1 | 7.0 | | | |
| Agric. Equip. | 5.5 | 10.5 | Gold Mining | 6.5 | U.N. |
| Aircraft | 6.5 | 1.8 | Invest. Trusts | 6.6 | 7.0 |
| Airlines | 8.1 | 8.9 | Liquor | 5.3 | 10.2 |
| Aluminum | 6.5 | 13.0 | Machinery | 5.4 | 9.5 |
| Amusements | 5.2 | 6.5 | Mail Order | 2.7 | 6.9 |
| Auto Accessories | 4.8 | 5.3 | Meat Packing | 5.7 | 7.2 |
| Autos | 4.0 | 5.8 | Paper | 2.9 | 9.8 |
| Business Mach. | 3.5 | 9.4 | Petroleum | 4.7 | 6.8 |
| Chemicals | 5.0 | 9.2 | Pub. Util. | 2.8 | 4.7 |
| Coal Mining | 11.0 | 12.8 | Rail Equip. | 3.7 | 7.8 |
| Communications | 6.6 | 3.0 | Railroads | 5.4 | 8.0 |
| Construction | 5.4 | 10.1 | Soft Drinks | 4.7 | 7.2 |
| Container | 4.1 | 3.9 | Steel & Iron | 6.4 | 11.5 |
| Copper | 6.2 | 11.9 | Sugar | 2.0 | 0.8 |
| Dairy | U.N. | 2.9 | Sulphur | 6.6 | 6.3 |
| Dep't. Stores | 4.8 | 7.8 | TV & Radio | 8.1 | 6.4 |
| Elec. Equip. | 6.3 | 6.9 | Textiles | 8.2 | 2.4 |
| Finance | 4.0 | 4.8 | Tire | 4.8 | 9.7 |
| Food Brands | 3.7 | 3.9 | Tobacco | 2.1 | 3.6 |
| Food Stores | 4.0 | 5.4 | Variety Stores | 3.0 | 6.2 |

U.N.—Unchanged. * The Magazine of Wall Street Common Stock Index.

**MARKET ACTION OF 40 GROUPS**
**(MWS Index)**

**% CHANGE FROM 9/18/1953 TO 9/23/1955**
**(Plus Unless Marked Minus (—))**

| | | | |
|---|---|---|---|
| 300 Combined | 86 | Finance | 81 |
| | | Petroleum | 81 |
| Aluminum | 356 | RR. Equip. | 78 |
| Aircraft | 198 | Textiles | 75 |
| Bus. Machines | 171 | Auto Accessories | 72 |
| Paper | 168 | Chemicals | 72 |
| Steel | 161 | Invest. Trusts | 67 |
| Copper | 151 | Container | 64 |
| Tire & Rubber | 146 | Soft Drinks | 55 |
| Amusements | 129 | Meat Packing | 54 |
| Airlines | 122 | Television & Radio | 51 |
| Construction | 119 | Food Brands | 45 |
| Mail Order | 116 | Autos | 44 |
| Machinery | 97 | Public Uts. | 44 |
| Coal Mining | 93 | Liquor | 42 |
| Elec. Equip. | 91 | Dairy Products | 33 |
| Agric. Equip. | 87 | Sugar | 32 |
| Communication | 83 | Food Stores | 31 |
| Sulphur | 83 | Gold Mining | 22 |
| Railroads | 83 | Variety Stores | 7 |
| Dept. Stores | 82 | Tobacco | — 3 |

Note: Sept. 18, 1953 marked beginning of 2-year market rise; Sept. 23, 1955 marked final peak.

year; one, following the opening of the Fulbright investigation, which resulted in a one-week break amounting to 5.1%, as reflected in our 300 Common Stock Index; and, two, the important break of September 26 - October 7, which followed from announcement of President Eisenhower's sudden and serious illness, with its full implications of rising political uncertainty. This amounted to close to an 8% decline.

In the last break, the only group which showed superior resistance to the selling onslaught was the aircrafts. But this good action had been well prepared in advance during the Spring and Summer months when they had adjusted themselves to a more realistic concept of their actual earnings prospects than the previous too-glowing estimate, on which the major portion of their 1953 - early 1955 advance had been predicated. The other groups in this collection, without exception, suffered substantial declines though they varied in extent. Thus, the aluminum group had the widest break, with a decline of 13% from the September peak; copper followed with over 12%; steel was close by with 11%; and construction and rubber and tire average about a 10% decline. Only mail orders and amusements of the group of the 11 (eleven) group leaders, acted relatively well with a decline of 6.9% and 7.5% respectively. It is obvious that these two groups were less vulnerable to sudden attack than the others mentioned.

### A Clue To Future Action

The information contained in the above is valuable for it indicates the degree of market vulnerability of important groups under current conditions. It should be anticipated, therefore, that if the market should recover substantially again, the market action of these groups would be likely to duplicate, at the end of the next important technical rally, the relatively same degree of vulnerability they had shown during the recent series of massive breaks. Since, in the long run, market performance is based on an assessment of realities, it should be clear that the market vulnerability of the groups mentioned is in direct ratio to the degree to which they had previously outrun their fundamentals.

Whether looked on from the standpoint of earnings or from the standpoint of yield, this general group which contains many of the most prominent high flyers of the past two years has for months given evidence of being over-priced. We have called attention on numerous occasions since May that the price-times-earning ratio of many important stocks was becoming too high and that the yields were correspondingly becoming too low. This was a signal that should not have been ignored.

### Groups Even With The Averages

We have discussed the action of the 11 (eleven) groups which made gains very much in excess of the 86% recorded by our 300 Common Stock Index. Now we can examine the action of 10 individual groups which moved percentagewise about even with this average.

Market gains of these groups ranged from 97% to 81%. This is represented by the following: machinery (97%); coal mining (93%); electrical equipment (91%); agricultural equipment (87%); communication (83%); sulphur (83%); department stores (82%); finance (81%); and petroleum (81%).

It is significant that, unlike the 11 (eleven) groups described above, this group of ten contained very few individual star market performers. There were exceptions, of course, New York Central among the rails; Radio Corp. among the communications; Caterpillar Tractor among the farm implements; and Standard Oil of New Jersey among the petroleum stocks. Nevertheless, investors seeking a chance for extra-large profits were more likely to find them in the first group of eleven than in this particular grouping.

On the other hand, the 10 groups which averaged close to the 86% of the general averages performed much better in the "Fulbright" and "Eisenhower" declines than the 11 groups which had scored the largest advances. Thus, they showed less susceptibility to sudden shock.

Of the 10 groups now under discussion, the following showed a surprising degree of resistance; communications, with a decline of only 3% and finance, less surprising, with a decline of 4.8%. Others which acted reasonably well under the circumstances were electrical equipment with a decline of 6.9%; and petroleum, 6.8%.

The poorest acting of this particular combination of individual groups were coal mining, with a decline of 12.8%, indicating that this group had previously recovered too sharply from lows established in previous years, as a result of the semi-demoralized condition then obtaining in the industry. Probably, coal stocks, after their recent setbacks are now selling on a more realistic basis, in view of actual conditions and prospects as can be seen ahead at this time.

Another group which acted poorly was the agricultural equipments which were forced to seek more realistic market levels, more in harmony with the relatively unsatisfactory farm situation, with its

potential for possibly lower farm equipment sales next year, unless real improvement in farm income materializes in the reasonably near future.

Of the 10 groups, the rails, on the whole, did not act well and, in fact, had been relatively disappointing throughout a good part of 1955. Nevertheless, they probably rest on a sounder market foundation, as a result of the shakeout, and, in view of their strong earnings outlook and higher dividend potentials, may be said to be one of the lesser exploited divisions of the market.

Aside from the rails, the individual groups belonging to the ten under review that at present seem in the most satisfactory position with reference to potential resistance to any further general declines are: petroleum, department stores and communications.

### Groups With Moderate Gains

We have already discussed the market action of two collections of individual groups; (1) 11 separate groups which had the largest percentage advances and (2) 10 individual groups which advanced about on a par with The Magazine of Wall Street Common Stock Index.

This leaves 19 groups which had from moderate to modest advances in the period, including one group (tobacco) which wound up at the end of the two-year period with a minus sign.

Of these groups, the following gave a fair performance, registered in the following figures showing gains per industry: rail equipment (78%); textiles (75%); auto accessories (72%); chemicals (72%); investment trusts (67%); container (64%); soft drinks (55%); meat packing (54%); TV and radio (51%); food brands (45%); autos (44%); public utility (44%); and liquor (42%).

The remaining six groups turned in a comparatively negative market performance for the two-year period. These gains were: dairy products (33%); sugar (32%); food stores (31%); gold mining (22%); variety stores (7%); and tobacco (−3%).

During the two market breaks, the one occurring at the time of the Fulbright investigation in March 1955 and the other occurring during the first weeks of the President's illness in late September—early October — the 19 groups now under consideration did not act uniformly. Thus, rail equipments suffered very little during the "Fulbright" break — only 3.7% — but proved more vulnerable during the recent break with a decline of 7.8%, thus indicating that an increasing susceptibility to market shock had been built up in recent months in this group. Textiles, on the other hand proved much less vulnerable in the September-October break with a decline of only 2.4% against a decline of 8.2% in the "Fulbright" break.

Auto accessories did not do badly in either break but showed somewhat more susceptibility to market reaction in the latest broad downturn than it did in March. In March it declined 4.8% and in Sept-Oct., 6.3%.

Chemicals showed much greater susceptibility to adverse market conditions in the "Eisenhower" break than it did in the "Fulbright", the declines being 9.4% and 5.0 respectively. This is a clear case of an over-boomed group (*Please turn to page* 158)

***Action of Leading Stocks Compared with Their Groups (at different stages of the market 1953-55)***

| (adjusted for stock splits) | Sept. 18 1953 | Dec. 31 1954 | Mar. 4 1955 | Mar. 11 1955 | July 22 1955 | Aug. 19 1955 | Sept. 23 1955 | Oct. 7 1955 |
|---|---|---|---|---|---|---|---|---|
| 300 | 177.2 | 287.2 | 306.9 | 291.2 | 322.1 | 313.6 | 329.8 | 307.4 |
| AIRCRAFT: | 330.3 | 927.3 | 1047.8 | 992.2 | 899.5 | 945.8 | 982.9 | 964.4 |
| Boeing | 19¼ | 74 | 86¼ | 80½ | 59 | 62½ | 64 | 62¼ |
| North Amer. Av. | 16 | 51¾ | 58 | 53½ | 58 | 65¾ | 66½ | 63½ |
| AIRLINES: | 499.1 | 1044.3 | 1159.2 | 1065.2 | 1232.2 | 1117.4 | 1107.0 | 1013.0 |
| Amer. Airlines | 11½ | 22½ | 25¼ | 24¼ | 27 | 24½ | 24¾ | 22¾ |
| Eastern Air Lines | 21½ | 38¾ | 47 | 42¾ | 55½ | 50½ | 52½ | 47½ |
| ALUMINUM: | 85.3 | 197.0 | 242.3 | 226.6 | 325.1 | 313.2 | 388.1 | 340.8 |
| Alum. Co. of Amer. | 23 | 45 | 55 | 50½ | 70 | 70½ | 87 | 75 |
| Reynolds Metals | 8¾ | 24¼ | 30 | 28¼ | 44½ | 42¾ | 57½ | 50 |
| AUTOS: | 39.0 | 45.7 | 46.2 | 44.3 | 53.0 | 52.1 | 55.8 | 52.6 |
| Chrysler | 65½ | 71 | 71 | 68½ | 89½ | 84 | 99½ | 94½ |
| General Motors | 55 | 98 | 98 | 93 | 130 | 127 | 144 | 137 |
| CONSTRUCTION: | 57.9 | 109.7 | 118.5 | 111.9 | 122.9 | 117.4 | 127.3 | 115.2 |
| Amer. Rad. & S. S. | 12½ | 24½ | 25½ | 23¼ | 25½ | 24 | 24½ | 22¾ |
| Johns-Manville | 58½ | 88 | 89 | 87 | 84½ | 84 | 87¼ | 81¾ |
| PAPER: | 394.9 | 807.5 | 823.7 | 799.4 | 993.2 | 952.9 | 1057.8 | 960.9 |
| Int. Paper | 50½ | 88¾ | 88½ | 87½ | 108 | 104 | 117½ | 104 |
| St. Regis | 18½ | 40 | 38 | 35½ | 45 | 42 | 45½ | 40 |
| STEEL: | 122.8 | 226.0 | 246.3 | 230.5 | 282.5 | 275.7 | 320.9 | 287.0 |
| Jones & Laughlin | 19¾ | 37 | 37¼ | 34½ | 42 | 44½ | 54 | 46¾ |
| U. S. Steel | 17 | 37 | 40 | 38¼ | 53½ | 52 | 62 | 56 |
| TIRE & RUBBER: | 70.4 | 145.0 | 149.4 | 142.1 | 156.6 | 152.3 | 172.6 | 156.6 |
| Goodrich (B. F.) | 31 | 63 | 65½ | 63 | 65½ | 66¾ | 77¾ | 73 |
| U. S. Rubber | 24½ | 44½ | 43¾ | 41 | 47½ | 45 | 49¾ | 44¾ |

# What 3rd Quarter Earnings Reveal

## — Looking To 4th Quarter and Early 1956

**PART 1**

By PHILLIP DOBBS

The three months that ended September 30, 1955, marked the highest level of business activity ever attained for a comparable quarter as the national economy continued to recover from the so-called recession of 1954, although the pace of recovery showed signs of slowing and several soft spots developed momentarily, notably home-building. The lone barrier to continuance of the boom was hurdled at the very start of the period, when the major steel and automotive corporations bought labor peace, whatever one may think of the price they paid. To be sure, there were strikes against companies that did not immediately fall into line, but there were no protracted stoppages of major scope. With scant interruption to the wheels of industry, this is what happened:

American industry in August turned out goods at 140% of the 1947-1949 average on an unadjusted basis (Federal Reserve Board figures). This figure topped July by nine points and August of last year by 17 points It also exceeded the previous unadjusted high of 139%, reached in June of this year. Durable goods activity expanded (despite a dip in automotive output due to model changeovers) while nondurable manufactures and mining remained at the high levels of July. Activity in such industries as textile, paper, chemical and oil held steady or advanced slightly in August. The high level of business activity was carried over into September, when a new high for the month was established. Be it noted, the upsurge was shared in by small, medium and large firms.

### Retail Sales Boom

Despite widespread floods that brought business in many regions to a standstill and searing heat that intermittently gripped wide areas of the country to make this one of the most uncomfortable summers on record, consumers bought heavily in the July-to-September period. The answer is not hard to find, as July employment hit a record 65 million and the unemployed rolls dipped 200,000 to about a million below the level of 1954. A pattern of wage rises began to emerge and the added money in workers' pockets also helped to boost retail sales in July by 8% from the like 1954 month. Automobile dealers, a major factor in retail sales, sold $3.3 billion of cars, a rise of $600 million from July, 1954. The other major segment of retail sales, the food group, sold nearly $3.8 billion worth of goods in July, $100 million more than in July of last year. Most appreciable gains were recorded by general merchandise, furniture, and appliance and apparel stores.

There was little change in the situation during August. Employment continued to climb, reaching 65.5 million and setting a new high for the third straight month. Home-building rebounded after a two-month dip. Work was started on 123,000 new housing units in the month, 8,000 above the July figure. Privately financed housing starts in August were at a yearly rate of 1,304,000 units—8% more than were started in 1954 and 30% more than were begun in any of the three preceding years. Steel production, throughout the summer and in the face of declining car output, was at a high level despite the "killing heat" and the industry appeared assured of full-tilt operations for many months to come.

### Home-Building Slows Down

The economy boomed even more in September despite a fall-off in new contracts for residential construction. Marked by a decline of 6% from a year earlier, it was the first drop from the year-earlier level in nearly two years. Tightened mortgage credit decreed by the Government appeared to be having its initial impact. Also tempering the boom that carried into September was the sharp drop in automotive production arising out of model changeovers. The decline from August ranged from 20% at Ford Motor Co. to 48% at Chrysler Corp. At that, the Chrysler outturn of 35,888 units was a far cry from the mere 1,978 cars produced in September, 1954. And the industry made a major contribution to the current boom with soaring sales. General Motors, for one, retailed 363,473 new cars

in September, an all-time one-month record and 71.1% more than the 212,418 units sold in the same month last year. The high end of the Chrysler line also scored sensational gains. This upsurge can't be attributed to any sudden realization on the part of motorists that cars were in short supply. Indeed, they were on the bargain-counter as the industry sought to clear out inventories before introducing the new models.

Employment in September set a new high for the month, though it fell below August's peak, reflecting the return to school of youngsters with summer jobs. Unemployment continued its downturn in September, with 88,000 fewer people out of work than the 2.2 million idle in August. The rush to beat rising prices contributed importantly to the hum of business activity during the month, notably in appliances and assorted apparel, such as footwear. Mail order retailers' September sales showed large increases over a year ago, marked by demand for hard and soft goods that could only be described as "strong." Electric power output continued to run far above a year ago.

### Earnings Reports Impressive

A summertime boom, inevitably, must show up in third-quarter earnings. Current year-to-year comparisons, with few exceptions, are bound to be impressive, revealing a broad-based upsurge in the economy. While there was a tendency over-all for sales and profits to rise, many companies were confronted with a declining profit margin arising out of higher costs of materials and labor. Yet aside from certain marginal companies, which are not strangers to the red-ink side of the ledger, it was difficult to find a company that was not prospering.

We propose to deal with these earnings reports more exhaustively in the second part of this article, to be published in the next issue of the Magazine. Let us proceed, meanwhile, to examine a handful of reports that has trickled in. The table accompanying this article is based on official company figures and given on a quarter-by-quarter basis.

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REPUBLIC STEEL CORP., third largest steel producer, reported for the three months ended September 30 sales of $302 million, a rise of 54.3% from the corresponding 1954 period. Net amounted to $22 million, or $1.43 a share, against $10,302,000, or 68 cents a share, while net per dollar of sales climbed to 7.3 cents from the 5.3 of the year-ago period. Operations in the latest quarter were at the rate of 95% of capacity, compared with 61.4% a year earlier. Ingot production rose to 2,384,295 tons from 1,544,019 tons in the third quarter last year. Shipments of finished steel products increased to 1,717,543 tons from 1,124,033 tons. As a result of the excellent quarter, Republic set a new record for a nine-month period (*Please turn to page* 160)

**_Quarterly Comparison of Sales, Profit Margins and Earnings_**

| | 3rd Quarter 1955 | | | 2nd Quarter 1955 | | | 1st Quarter 1955 | | | 4th Quarter 1954 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales (Millions) | Net Profit Margin | Net Per Share | Net Sales (Millions) | Net Profit Margin | Net Per Share | Net Sales (Millions) | Net Profit Margin | Net Per Share | Net Sales (Millions) | Net Profit Margin | Net Per Share |
| **Avco Mfg.** | $ 69.7 | (d) .5% | (d) $ .05 | $ 66.4 | (d) .2% | (d) $ .02 | $ 70.2 | .8% | $ .06 | $107.7 | 5% | $ .06 |
| **Barker Bros.** | 8.6 | 2.7 | .61 | 7.2 | 2.7 | .26 | 6.9 | 1.7 | .27 | 8.7 | 5.1 | 1.20 |
| **Beatrice Foods** | 82.0 | 1.6 | 1.01 | 76.4 | 1.4 | .79 | 68.5 | 3.2 | 1.73 | 71.7 | 1.4 | .78 |
| **Douglas Aircraft** | 240.3 | 4.0 | 2.52 | 221.0 | 2.9 | 1.78 | 214.8 | 3.3 | 1.93 | 205.6 | 3.8 | 2.16 |
| **Dow Chemical** | 128.1 | 9.1 | .51 | 134.6 | 7.7 | .47 | 114.0 | 9.1 | .46 | 114.2 | 7.0 | .35 |
| **Eagle-Picher Co.** | 27.8 | 4.4 | 1.25 | 29.5 | 4.6 | 1.40 | 26.2 | 2.7 | .71 | 26.1 | 4.6 | 1.23 |
| **Ex-Cell-O Corp.** | 27.9 | 10.0 | 1.56 | 25.9 | 12.2 | 1.77 | 21.3 | 9.9 | 1.25 | 20.4 | 8.3 | 1.01 |
| **Ferro Corp.** | 12.0 | 4.7 | .85 | 12.2 | 5.4 | 1.07 | 11.1 | 5.4 | .99 | 13.3 | 4.6 | 1.00 |
| **General Tire & Rubber** | 74.4 | 3.8 | 2.03 | 71.7 | 2.6 | 1.25 | 63.5 | 3.5 | 1.62 | 62.0 | 2.3 | (N.A.) |
| **Hooker Electrochemical** | 19.2 | 10.4 | .40 | 38.9[1] | 10.5[1] | .79[1] | — | — | — | 10.5 | 10.9 | .33 |
| **Kaiser Aluminum & Chem.** | 77.4 | 11.5 | .61 | 73.8 | 12.8 | .42 | 67.6 | 10.9 | .60 | 65.2 | 9.8 | .52 |
| **Koppers Co.** | 60.0 | 4.3 | 1.25 | 54.1 | 5.5 | 1.43 | 46.0 | 4.0 | .86 | 46.2 | 3.2 | .61 |
| **M & M Wood Working** | 9.2 | 7.0 | .46 | 11.4 | 8.4 | .68 | 11.0 | 6.7 | .52 | 10.5 | 5.5 | .41 |
| **Masonite** | 15.6 | 16.0 | 1.76 | 14.1 | 10.6 | 1.12 | 11.9 | 8.4 | .74 | 12.2 | 8.7 | .79 |
| **Mueller Brass** | 17.8 | 4.0 | 1.30 | 17.0 | 3.1 | .95 | 14.9 | 3.5 | .96 | 12.3 | 5.5 | 1.23 |
| **New York Air Brake** | 10.8 | 5.8 | .86 | 9.8 | 4.1 | .56 | 8.8 | 4.4 | .54 | 9.7 | 3.5 | .47 |
| **Pittsburgh Steel** | 44.7 | 4.8 | 1.28 | 47.4 | 3.5 | .96 | 37.1 | 2.4 | .42 | 32.8 | 4.1 | .75 |
| **Plough, Inc.** | 5.1 | 4.0 | .46 | 4.8 | 2.7 | .30 | 5.2 | 3.8 | .44 | 5.8 | 3.3 | .43 |
| **Republic Steel** | 301.9 | 7.2 | 1.43 | 307.4 | 7.4 | 1.50 | 263.2 | 6.9 | 1.19 | 217.7 | 8.1 | .76 |
| **Shamrock Oil & Gas** | 11.0 | 12.9 | .63 | 10.4 | 15.7 | .73 | 9.8 | 20.6 | .90 | 9.9 | 19.5 | 1.28 |

**(d)—Deficit.** **(N.A.)—Not available.** **[1]6 months.**


## NEED TO REDUCE PRESIDENT'S TOIL

By "VERITAS"

**LABOR POLICY** of the Eisenhower Administration has seen some important changes, mostly procedural, during the two years that James P. Mitchell has been Secretary. He's credited with creation of a relationship between labor and the government that wasn't in the cards when Ike took office over union opposition. Major disputes which ended at the White House under FDR and Truman now go to the professionally-staffed Federal Mediation Service. And the Department of Labor no longer is considered an official adjunct of the AFL and the CIO.

### WASHINGTON SEES:

The heart attack that immobilized President Eisenhower as Chief Executive of the United States might have had the most serious imaginable effect upon the Nation, but to the great credit of men in high places the Government is sailing through the recuperation period without signs of dangerous listing.

The near-tragedy struck with no real medical warning. Naturally, there had been no speculation on what might happen if the President were hospitalized with serious ailment, but forecasts had been freely indulged as to what would transpire if, for any reason, Ike might be required to step out of the picture. Foreseen was a terrific struggle between the man constitutionally next in line, Vice President Nixon, and the man who actually is next in command in day-to-day operations of the Administration, Sherman F. Adams.

The few days of uncertainty must have been a terrific temptation to the fortyish Vice President to assert his authority. And his great activity during those days must have encroached to some degree the White House preserve dominated by Adams. But Nixon and Adams, to the credit of both, remained out of each other's way. Now the administrative train is back on the track with territories clearly assigned by Ike: Nixon, political; Adams, administrative.

**ILLNESS** of the President has spotlighted the need for a new appraisal of the requirements of the job, to eliminate the unnecessary, the frivolous, the political back-scratching, much of the social, and a lot of the work that could be delegated to others. Ike already had taken steps in this direction. Beauty Queens and huckster promotions were ruled out early; Sherman Adams gave the job of administrative assistant real meaning; and Richard Nixon has taken over the tasks of globe trotting, wreath-laying, spade turning, and political leavening.

**BELIEF** persists among many highly-placed Republicans that Chief Justice Earl Warren would make himself available for the party's Presidential nomination if the demand seemed to him to be genuine. In addition to the obvious attractions to Warren, a politician's politician before he went on the bench, the call of national duty could be made to sound genuine. But skeptics are asking what might happen to north-south border states where segregation, under a Warren decision draft, rankles. The GOP can win without the South, lose without the border states.

**GRADUAL** transition from cold war to cool war pleases the military and diplomatic experts but they aren't stacking rifles just now. The French attitude in UN on the Algeria, and the Arab threat to buy arms from the Reds are not consoling. But in the overall, improvement has been experienced and Ike intends to keep it that way. This accounts for his bedside confab with Dulles.

## As We Go To Press

Novel suggestion, and not an unpleasant one, is that the Administration cannot avoid a balanced budget. Booming business conditions and tax yields beyond expectations are the ready answer. This is something that has received minor mention in Treasury's hopeful outlooks but it is a fact, reflected in Internal Revenue Service books, that more persons and corporations are paying more taxes than appears on the "anticipated" side of the budget.

Government fiscal experts concede it could happen, don't appear to think it will. They still depend on departmental savings to do the major job of bringing about balance. It's politically safer that way, too; unanticipated costs can explain away failure.

The more cynical (or realistic, if you wish) viewers of federal money matters continue to hold to the belief that the budget will be balanced -- on the record, only. These are the people who are profoundly concerned about the blueprint of fiscal policy, beginning with present tight-rope walking on the national debt limit.

The United States remains unique among the nations of the world in point of credit standing. There's effort to keep the debt limit from spilling over to the point that might even remotely question that standing. Debt ceiling dates back to the days when Congress was worrying over financing World War 1. While the figure must be arbitrary, it's never criticized as too conservative. Especially when columned beside national production figures.

Drastic attack method is a legislative proposal (converted to a Constitutional Amendment) prohibiting Congress from appropriating more money than the anticipated revenue for the same year. Weakness of this approach is that it would make financing extraordinary defense impossible, prevent head-on meeting with emergency conditions. These extraordinary things could not be defined with particularity, and anything less would render the appropriations ceiling meaningless.

But the more immediate concern is inclination toward a policy which would put the country into a debt obligation that isn't reflected in the ceiling but is just as much a diminution of credit standing. The Administration favors two measures in this direction: finance a highway building program, and expansion of TVA with revenue bonds. The Government would not guarantee payment of the bonds as terms accrue. Having given its name and tacit "accommodation indorsement" it seems unthinkable that the USA would not insure fulfillment of the contract. For all practical purposes, a debt not appearing as a charge against the ceiling, would exist.

Congress must face up to this issue sometime in the next several months. It will be presented squarely when the White House moves again for a national highway bill. The question of financing will dovetail with the one-year extension of the debt limit, and the question Congressmen must answer, they will be told, is: Shall this Nation have a limited debt, and an unlimited debt? The principle of Federally-approved but not guaranteed obligations is not a new one. But it has taken on greater significance since the debt ceiling became a year-to-year worry. Lurking danger is the probable preference of the public for revenue bonds, which could have a bad effect on other types of issue.

Proof that the Administration is truly worried over the farm price situation is found in the fact that the Vice President now holds daily conferences with the farm state Congressmen. Mr. Nixon is serving a dual purpose: as the top man

in the Administration currently available for such conferences, he's letting the farm belt know its problems have first priority; he is the middleman between the farm Congressmen and Secretary Benson. Right now it wouldn't be politic to get them at literal arm's length! Nixon seems to be doing a good job of oiling the troubled waters.

Meanwhile, Secretary Benson has hit on the head the conservation acreage reserve bill which had generally been thought to be winning Administration favor. Benson sent word to the Senate's agriculture committee that he'll oppose the measure sponsored by Minnesota's democratic Senator Hubert Humphrey, if it comes on for hearing. This forces the Administration strategists (who weren't on the inside so far as Benson is concerned) to adopt a new tack. It has angered Humphrey, who retorted: "Benson has turned his back on the only practical way suggested for adjusting production without penalizing the farmers by further cuts in farm income."

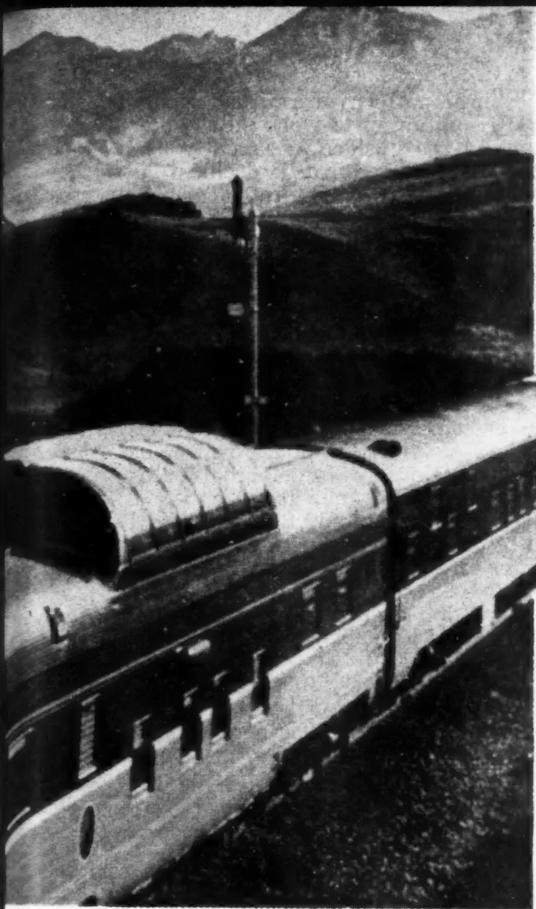
Speculation on what the Administration will come up with now, is intensified by the Benson pronouncement. Certain it is that there will be shifts. The Department of Agriculture is convinced the flexible support program would supply the answer if given time to work. That would mean the crop now under cultivation; the present market operated under the system Benson inherited and Congress changed. The trend of thinking is toward production payments and tighter production controls. Whatever name it adopts, that's still the the Brannan Plan!

It's been established what the basic interest rates will be to cities and public bodies, for the Government's new community facilities loans. Effective will be a basic rate of 3 3/4 per cent for loans secured by general obligation bonds, and 4 1/4 per cent for loans secured by revenue bonds. Both basic rates apply to 30-year loans. They will be adjusted for longer, or shorter, amortization periods. There's trouble ahead, and echoes of the order will be heard in the chambers of Congress: Rep. Albert Rains, Alabama, chairman of the interested House subcommittee tabs the rates so stiff as to discourage borrowing.

The political volcano is likely to erupt at any moment. Party leaders, both, sides, are having difficulty containing the urge to take calculated risks, all of which have to do with the President's illness, the proprieties of attack by the democrats, and shuffling for preferred position by the republicans. The democrats are gingerly moving toward a policy they hope the public will accept: the Eisenhower Administration is a thing apart from Ike, the personality; that the record is fair game and fire needn't be held because the team Captain is ill.

Republicans almost uniformly believe that Ike is not to be their candidate in 1956. But there's always the chance that he will be. It's remote, but the General still is the party's ace. That there is no "crown prince" to step up is a party weakness which GOP leaders, themselves, created. Now they are stuck with it. The "stop Nixon" drive is gaining momentum, but the Vice President isn't fueling the machine by presumptuous seizure of authority. And those who would sidetrack him realize they can defeat their purpose by too critical an attack.

On the democratic side the titular leadership of the party goes to its most recent President, Harry S. Truman. He was regarded an unshakable Stevenson man a few weeks ago; now he seems to be unalterably a Harriman partisan. He says he is neither and won't be until the convention meets. Until last month, the democrats at least thought they knew who they'd be running against. They reasoned that the nomination would be a costly bauble with little chance of conversion into the Presidency. Activity within the party shows that evaluation changed. But they still have to guess who the opponent will be, and that could decide who their nominee will be too.



# Important Days Ahead For Rail Stockholders

By EDWARD S. WILSON

The railroad investor is faced with a puzzling paradox as of the date of this writing. Although net income of Class 1 roads for the year 1955 should come close to the 1953 post-war high of $902 million, representative railroad common stocks, as measured by the Dow-Jones average, have slipped back to their lows of last March and are currently 10% below the highs for the year made in September. In an attempt to arrive at a suitable explanation of this paradox, we feel that it would be helpful to enumerate the principal favorable and unfavorable factors in the railroad picture at the present time. On the positive side these are:

1. A basic improvement in operating efficiency over the past two years. To illustrate, although gross revenues of Class 1 carriers in the first eight months of the year ran nearly $600 million, or 8% below comparable 1953 levels, net income is estimated at $582 million vs. $571 million two years ago. This excellent comparison was entirely due to the showing of the Eastern and Pocahontas roads, with an estimated net income of $224 million as against $202 million in the first eight months of 1953.
2. Growing operating economies from new techniques in railroading such as "push button" classification yards, centralized traffic control, and mechanization of accounting and maintenance of way work. Although not as spectacular as the advent of the diesel, these advances are producing annual returns of 10% to 40% on the investment.
3. Aggressive moves by the new generation of young and vigorous top management to reclaim freight and passenger traffic from the trucks, inland water-ways, buses and air lines. Significant mileposts are piggyback operations with a steady and healthy growth, the attraction of new industries to the rails, and the inauguration of lightweight passenger train service by several of the most important railroads.
4. A greatly improved working capital position over the past year with cash and temporary cash investments of $1.84 billion on last July 31 up $333 million from a year ago and net working capital of $1.53 billion (up $163 million in the past year) being equal to 3.6 times fixed and contingent interest charges of $425 million (4.4% of gross revenues) for the twelve months ended July 31. As more fully discussed later in this article, this improvement should lead to a more liberal dividend pay-out than the 44% of last year.
5. The considerably higher income returns and lower price x earnings ratios on good grade railroad stocks than on blue chip industrials. For instance, ten representative rail equities (Denver & Rio Grande, Great Northern, Gulf, Mobile & Ohio, Illinois Central, Kansas City Southern, Louisville & Nashville, Norfolk & Western, Seaboard Air Line, Texas & Pacific and Western Pacific) are currently selling on the average at 7.4 times estimated 1955 earnings to yield 5.8%. This reasonable appraisal of earnings and dividend prospects has led to growing institutional interest in the rails with the percentage of these equities in the "Favorite Fifty" of the investment trusts rising to 8.8% of total market value on June 30 from 2.8% on December 31, 1951.
6. A growing awareness of the railroad problem

on the part of federal and state regulatory authorities following the publication last April of the Cabinet Committee Report on Transportation. This changing attitude was pointed up by the recent statement of Interstate Commerce Commissioner Mitchell that the railroad industry's 1954 return of about 3.3% on invested capital was "certainly too low."

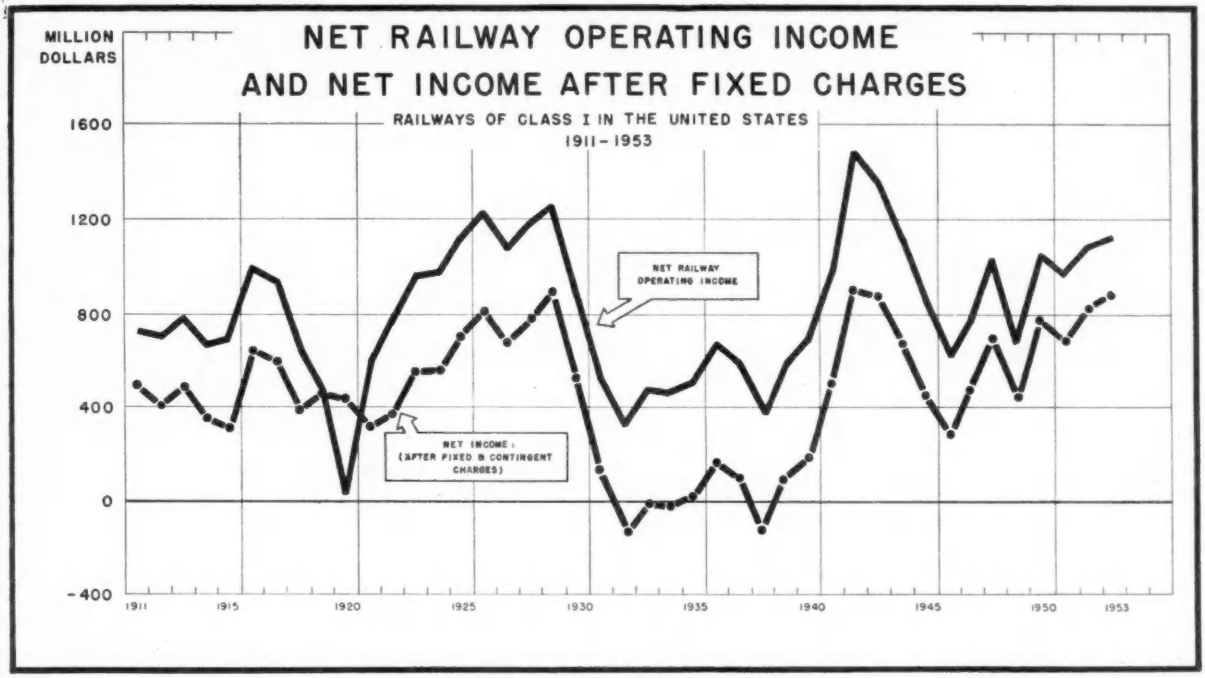
Now what of the unfavorable side of the picture? The following are the chief negative factors at the present time:

1. A continuing diversion of railroad traffic to competing carriers with a consequent erosion of the rate structure. The railroad's share of total inter-city ton-miles dropped from 55.9% in 1951 to 51.7% in 1953. In 1954, railroad freight revenues showed a year-to-year drop of 13% while revenues of inter-city motor carriers declined only 3%. Meanwhile, the railroads' percentage of total revenue passenger-miles, excluding commutation, sagged from 74.4% in 1951 to 60.2% in 1954 with the air lines' ratio rising from 25.6% to 39.8% in the same period. This trend has continued in the first seven months of 1955 with passenger revenues of Class 1 railroads showing a year-to-year decline of 4% while revenues of 15 principal domestic airlines showed an increase of 16% over the first seven months of 1954.
2. The burden upon earnings of the recent and other impending wage increases. On October 5, the railroads granted the Brotherhood of Railroad Trainmen an increase of 10½c an hour retroactive to October 1 and a similar increase was granted the Brotherhood of Locomotive Firemen and Enginemen on October 15. However, railroad managements feel that the effective cost of these settlements will be closer to 12c an hour. If, as now seems likely, a similar pattern is followed for the other operating and non-operating unions, the total cost is estimated at $250-$300 million as compared with the $875 million net income forecast for 1955. Although the Interstate Commerce Commission might grant a freight rate increase theoretically sufficient in amount to offset such wage boosts, its actual effectiveness would be severely limited by the continuing pressure on the railroad rate structure from truck and waterway competition.
3. The continuing drain on freight operating profits from the large passenger losses. Although the passenger deficit (on the I.C.C. accounting basis) was reduced from $705 million in 1953 to $670 million in 1954, it still amounted to over 43% of freight net operating income of $1.54 billion vs. 39% of $1.81 billion in the previous year.
4. The cyclical pattern of railroad earnings with leverage continuing to work on the downside as well as on the upside. As recently as 1954 net income of Class 1 railroads declined 25% below the previous year on a drop of 12% in gross revenues. Of the decline of $228 million in net income, the Eastern and Pocahontas roads, with their heavy dependence upon the steel, coal and other heavy industries, accounted for nearly half, or $102 million. However, in all fairness it should be pointed out that in the previous recession year of 1949, net income fell 34% below 1948 on a decline of only 11% in gross revenues.
5. The poor technical market action of railroad stocks as compared with industrial equities thus far in 1955. The Dow-Jones railroad average, after surpassing its June high by less than 2 points in September, has now dropped 10% from its high and is now only 8% above its 1955 low made last January. The rise from the low to the high for the year had been 19%. By contrast, the Dow-Jones industrial average is now selling 9% below its high for the year, is still 15% above its low, and advanced 26% from its 1955 low to the high.
6. A considerable uncertainty about the business outlook after the turn of the year. The Regional Shippers Advisory Boards are estimating that fourth quarter carloadings will show a 9.4% rise over the previous year with the largest percentage increases expected to be shown by the Great Lakes (increase of 25.4%) and Allegheny (16.3%) regions. However, the present record level of general business activity has received its major support from an unprecedented boom in the automobile and building industries with a consequent boost to the all-important steel industry. With the stiffening of credit by the Federal Reserve Board and the blow to long term business confidence from President Eisenhower's sudden and serious illness, it is doubtful whether the automobile and construction industry can reach this year's peaks in 1956.

After weighing the assets of the railroad industry against its liabilities, what conclusions can be drawn? The first and important conclusion is that a cautious policy should be maintained towards the equities of the Eastern railroads. First of all, these roads have been the principal beneficiaries of the upsurge in the steel, coal and other durable goods industries this year and so would be especially vulnerable to any material slackening of activity in this important segment of the economy in 1956. As shown by the accompanying table, the Eastern and Pocahontas roads were in large part responsible for the excellent showing made by Class 1 railroads

### *How Rail Groups Compare*

| | Gross Revenues (Millions) 8 Mos., 1955 | 8 Mos., 1954 | % Change | Operating Expenses (Millions) 8 Mos., 1955 | 8 Mos., 1954 | % Change | Est. Net Income (Millions) 8 Mos., 1955 | 8 Mos., 1954 | % Change |
|---|---|---|---|---|---|---|---|---|---|
| Eastern & Pocahontas | $2,862 | $2,630 | +8.8% | $2,192 | $2,164 | +1.3% | $224 | $ 84 | +166.7% |
| Southern | 924 | 908 | +1.9 | 675 | 695 | −2.8 | 94 | 69 | +36.2 |
| Western | 2,804 | 2,658 | +5.5 | 2,104 | 2,079 | +1.2 | 264 | 196 | +34.7 |
| Total Class 1 | $6,590 | $6,196 | +6.4% | $4,971 | $4,938 | +0.7% | $582 | $349 | +66.8% |




in the first eight months of 1955. Of the year-to-year increase in net income of $233 million, the Eastern and Pocahontas carriers accounted for $140 million, or 60%, and the three largest Eastern trunk lines (Baltimore & Ohio, New York Central and Pennsylvania) for $67 million.

Secondly, the Eastern roads, with their large percentage of passenger traffic, including very unprofitable commutation business and heavy terminal expenses, will be the principal sufferers from the present round of wage increases. Many of these roads have a wage ratio of over 50% of gross revenues vs. an average of 49.1% for Class 1 roads in 1954, so that the effect of a 5% pay increase is obvious. Impact of present and prospective wage increases upon individual railroads is indicated below:

*Above Average*

Virginian — 35.1%
Kansas City Southern — 39.9%
Denver Rio Grande — 41.4%
Norfolk & Western — 42.7%
Western Pacific — 43.9%
Southern Railway — 44.3%
Gulf, Mobile & Ohio — 45.1%
Union Pacific — 45.7%
Seaboard Air Line — 45.8%
Chesapeake & Ohio — 46.4%
Atch., Topeka & Santa Fe — 46.5%
N. Y., Chi., & St. Louis — 46.8%
Chi., Rock Island & Pacific — 47.2%
Great Northern — 47.9%

*Below Average*

Chicago & North Western — 59.7%
Boston & Maine — 59.4%
Del., Lackawanna & Western — 55.7%
New York Central — 55.1%
Northern Pacific — 54.8%
Reading — 53.9%
Pennsylvania — 53.5%
Lehigh Valley — 52.9%
Erie — 52.5%
St. Louis-San Francisco — 52.3%
Southern Pacific — 51.6%
N. Y., New Haven & Hart. — 50.8%
Chi., Milw., St. Paul & Pacific — 50.6%
Atlantic Coast Line — 50.2%
Illinois Central — 49.4%
Louisville & Nashville — 49.2%

It will be noted that the fourteen roads with a better-than-average wage ratio include nine southern and central western carriers, all three Pocahontas roads (Virginian, Norfolk & Western and Chesapeake & Ohio), only one Eastern railroad, the New York, Chicago & St. Louis, and one north western carrier, the Great Northern. However, the Baltimore & Ohio with a wage ratio equal to the national average (49.1%) made an excellent showing vs. the other Eastern trunk lines (Erie, New York Central & Pennsylvania). In the below-average group, we find eight Eastern railroads (including the other three trunk lines), the other three major north western roads (Chicago & North Western, Northern Pacific, and Chicago, Milwaukee, St. Paul & Pacific), two western carriers, and three southern railroads. However, the latter (Atlantic Coast Line, Illinois Central and Louisville & Nashville) are only slightly above the national average.

Moreover, the Southern and Western carriers are less susceptible to the fluctuations of heavy industry with their greater traffic diversification, and the impact of wage increases bears much more lightly upon them due to their generally lower transportation and operating ratios. Moreover, the persistent population and industrial growth in the South and West acts as a stabilizing factor upon earnings in periods of generally depressed business activity as in 1949 and 1953. It is our own hunch that the railroad stock market may revert to the pattern of 1954 when equities of the Southern and Western roads far outperformed those of the Eastern carriers and this market performance was backed up by a far superior earnings showing. Using past history for the moment as a frame of reference, net income in 1954 declined only 17% below 1953 levels for the Southern and Western roads, but 35% for the Eastern and Pocahontas. In addition, as previously pointed out, many of the Southern and Western carriers are most reasonably priced on the basis of earnings and dividends. Five representative issues, Denver & Rio Grande, Great Northern, Gulf, Mobile & Ohio, Louisville & Nashville and Seaboard Air Line, all yield 6% on dividends which on the average are covered twice over by earnings. Even such high grade stocks as Atchison, Topeka & Santa Fe and Texas & Pacific are giving an income return of well over 5%. Three outstanding growth issues, Kansas City Southern, Southern Railway and Western Pacific, are currently selling at seven times or less anticipated 1955 earnings.

Over the longer term, we are impressed by the growth potentialities of the North West and especially the Pacific North West. With its growing electric power facilities, large scale irrigation projects, tremendous deposits of lignite and ample supply of native labor, this area appears to be the "coming section" of the country.

Earlier in this article, we mentioned the probability that dividend payments will be stepped up this year with the material improvement in railroad earnings and finances. Already in 1955 the Chicago, Rock Island & Pacific, Denver & Rio Grande, Great Northern, Illinois Central, New York Central, Pennsylvania, Seaboard Air Line and Southern Railway have raised their dividend rates. Logical candidates for year-end extras or higher regular rates include Baltimore & Ohio, Central of Georgia, Chesapeake & Ohio, Gulf, Mobile & Ohio, New York Central, New York, Chicago & St. Louis, Norfolk & Western, Northern Pacific, Pennsylvania and Virginian. In 1956 further increases could come from Atchison, Topeka & Santa Fe, Atlantic Coast Line, Illinois Central, Kansas City Southern, St. Louis-San Francisco, Southern Pacific, Southern Railway, Union Pacific and Western Pacific.

In railroad accounting and analytical circles there has been much discussion of the overstatement of railroad earnings due to income tax savings arising from five-year amortization of defense facilities, such as freight cars, passenger cars, diesel locomotives, classification yards, centralized traffic control, etc. Under the regulations of the Interstate Commerce Commission, the railroads are not allowed to include these amortization charges in operating expenses, but can use the tax deductions arising therefrom in arriving at net income. The importance of this tax savings in the railroad earnings picture is indicated by the fact that it amounted in 1954 to about $150 million, or 22% of net income of $674 million for all Class 1 railroads. In 1955, the tax savings from five-year amortization is forecast at approximately $180 million, or 21% of estimated net income of $875 million. The authorization of five-year amortization charge-offs for new facilities was suspended by the Office of Defense Mobilization last August, but was reopened earlier this month only for freight cars "for which construction is authorized on firm orders placed by December 31, 1955." This ruling will undoubtedly result in a heavy flow of freight car orders between now and the year-end, particularly in view of the present high volume of traffic. However, 1955 will mark the peak of these amortization charge-offs with a moderate drop expected in 1956.

We have listed below the seventeen railroads which will gain the most earnings benefits from these income tax savings in 1955:

| | *Estimated 1955 Earnings Per Share* | *Estimated 1955 Income Tax Savings Per Share* | *Income Tax Savings % Total Earnings Per Share* |
|---|---|---|---|
| Atlantic Coast Line | $ 5.00 | $1.85 | 37.0% |
| Baltimore & Ohio | 8.50 | 1.90 | 22.4 |
| Chesapeake & Oho | 6.75 | 1.45 | 21.5 |
| Chicago, Milwaukee, St. Paul & Pacific | 5.00 | 1.80 | 36.0 |
| Chicago, Rock Island & Pacific | 11.00 | 3.15 | 28.6 |
| Delaware, Lackawanna & Western | d 0.75 | 1.10 | — |
| Erie | 3.00 | 1.20 | 40.0 |
| Gulf, Mobile & Ohio | 6.00 | 1.50 | 25.0 |
| Lehigh Valley | 3.50 | 1.05 | 30.0 |
| Louisville & Nashville | 10.00 | 3.25 | 32.5 |
| New York Central | 7.50 | 1.50 | 20.0 |
| New York, New Haven & Hartford | 9.00 | 3.30 | 36.7 |
| Pennsylvania | 3.25 | 0.85 | 26.2 |
| Reading | 5.25 | 2.25 | 42.9 |
| St. Louis-San Francisco | 5.25 | 1.55 | 29.5 |
| Seaboard Air Line | 9.00 | 2.45 | 27.2 |
| Western Pacific | 9.00 | 1.80 | 20.0 |

Of course, in any discussion of five-year amortization, serious consideration must be given to the fact that the capital expenditures authorized thereunder may be presumed to yield a substantial annual return in future years. In the three years from 1953 through 1955, Class 1 railroads will spend close to $3 billion for additions and betterments to road and equipment, or an average of nearly $1 billion annually. If we make the conservative assumption of a 10% annual return on these outlays, the annual return would be equal to $100 million, or 22% of average 1953-1955 net income of $820 million a year.

## *How Rail Earnings Shape Up For 1955*

| | Earnings Per Share 1954* | Earnings Per Share Estimated 1955 | Indicated 1955 Dividend Rate | Price Range 1954-55 | Recent Price | Div. Yield | Est. % Increase 1954-55 Earnings Per Share |
|---|---|---|---|---|---|---|---|
| Atchison, Top. & Santa Fe | $12.35 | $15.00 | $ 7.00 | 151 - 92½ | 130 | 5.3% | + 21.4% |
| Atlantic Coast Line | 4.75 | 5.00 | 2.00 | 59½- 28⅜ | 42 | 4.7 | 5.2 |
| Baltimore & Ohio | 4.75 | 8.50 | 2.00 | 53⅜- 18⅝ | 45 | 4.4 | 78.9 |
| Chesapeake & Ohio | 5.01 | 6.75 | 3.50 | 56¾- 33⅛ | 52 | 6.7 | 34.7 |
| Chicago, Milw., St. P. & Pac. | 2.03 | 5.00 | 2.50 | 29⅝- 10 | 25 | 10.0 | 146.3 |
| Chicago & Nor. Western | (d) 11.23 | (d) 1.50 | — | 22 - 10¼ | 18 | — | — |
| Chicago, Rock Island & Pac. | 8.82 | 11.00 | 5.00 | 101¾- 62½ | 83 | 6.0 | 23.5 |
| Dela. Lack. & Western | 2.25 | (d) .75 | 1.00 | 25¼- 12¼ | 16 | 6.2 | — |
| Denver & Rio Grande W. | 4.40 | 5.00 | 2.50 | 43⅞- 18½ | 39 | 6.4 | 13.6 |
| Erie | 1.78 | 3.00 | 1.50 | 24¾- 16⅛ | 20 | 7.5 | 68.5 |
| Great Northern Ry. | 4.21 | 5.25 | 2.50 | 44½- 22⅞ | 40 | 6.2 | 24.7 |
| Gulf, Mobile & Ohio | 5.06 | 6.00 | 2.50 | 44½- 26⅞ | 37 | 6.7 | 18.5 |
| Illinois Central | 7.68 | 8.25 | 3.50 | 68⅝- 37⅛ | 60 | 5.8 | 7.4 |
| Kansas City Southern Sys. | 10.03 | 11.00 | 3.00 | 84⅞- 38⅝ | 73 | 4.1 | 9.2 |
| Lehigh Valley | 1.76 | 3.50 | 1.20 | 25⅛- 13 | 19 | 6.3 | 98.8 |
| Louisville & Nashville | 8.09 | 10.00 | 5.00 | 90½- 59¾ | 80 | 6.2 | 23.6 |
| New York Central | 1.42 | 7.50 | 2.00 | 49½- 18⅝ | 44 | 4.5 | 428.1 |
| N. Y. Chicago & St. Louis | 5.47 | 7.50 | 3.50 | 56½- 32¼ | 50 | 7.0 | 37.1 |
| N. Y., N. H. & Hart. | 6.18 | 9.00 | — | 39 - 22 | 30 | — | 45.6 |
| Norfolk & Western | 4.52 | 5.75 | 3.50 | 61⅞- 39⅝ | 56 | 6.2 | 27.1 |
| Northern Pacific | 5.79 | 7.75 | 3.50 | 83⅜- 53½ | 66 | 5.3 | 33.8 |
| Pennsylvania | 1.41 | 3.25 | 1.50 | 30⅜- 15⅞ | 24 | 6.2 | 130.7 |
| Reading | 4.56 | 5.25 | 2.00 | 37⅞- 26¼ | 31 | 6.4 | 15.1 |
| St. Louis-San Francisco | 2.60 | 5.25 | 1.75 | 34⅞- 22 | 29 | 6.0 | 101.9 |
| Seaboard Air Line | 8.51 | 9.00 | 5.00 | 87½- 42 | 72 | 6.2 | 5.7 |
| Southern Pacific Sys. | 5.38 | 7.00 | 3.50 | 65⅛- 36⅝ | 54 | 6.4 | 30.1 |
| Southern Railway | 8.96 | 12.50 | 4.00 | 99¾- 39¼ | 85 | 4.7 | 39.5 |
| Union Pacific | 14.76 | 17.00 | 7.00 | 178 -105¼ | 155 | 4.5 | 15.1 |
| Virginian Rwy. | 3.71 | 6.00 | 2.50 | 48 - 25¼ | 44 | 5.6 | 61.7 |
| Western Pacific | 6.13 | 9.00 | 3.00 | 73⅞- 49½ | 59 | 5.0 | 46.8 |

*—Before capital and sinking funds.
(d)—Deficit.

# URANIUM BOOM OVER

By GEORGE W. MATHIS

*COLORADO PLATEAU . . . A typical miner holds a large chunk of high-grade ore, bright yellow in color. The ore varies greatly in appearance from one deposit to another.*

You are a rare individual, indeed, if you haven't received at least one letter from a stock underwriter, broker or dealer offering shares in a uranium mine (almost invariably selling for pennies per share). Or maybe it was a telephone call—in either event the pitch probably was the same. The company had staked out a claim on the Colorado Plateau or the Bancroft area of Canada, "uranium hot spots." For a negligible consideration, you could acquire an interest in a mine that was getting ready to produce uranium—an ore that was destined to supplant petroleum, secure the free world against all foreign foes and designed to perform, in time, every chore that made living a drudgery.

The clincher, in many instances, was a reminder that gold and oil also had humble origins. Whether or not you succumbed to that initial assault, the bombardment continued with geological studies, progress reports, announcements of rich finds on nearby land, plans to go into production and assorted literature and pleas to buy at once, lest the stock soar out of sight by tomorrow. Concentration of these sales efforts often was on people who had little or no experience with stock purchase. After all, the seasoned investor was too sophisticated to fall prey to fly-by-night operators and where there was any question, he had only to turn to a reputable broker or investment counselor. Peddlers of penny uranium stocks struck the richest lode through lists of fraternal organizations, humble working folks and other groups remote from the investment community. Their advertising, publicity and promotion programs were keyed to the development of atomic energy, which made Page One news day after day.

It would be a mistake, however, to suppose that boiler-room operators, worthless claims and stock manipulations are the whole story of the uranium boom, or even a major part of it. As the only nuclear fuel that will be available in commercial volume for years to come, uranium has a substantial future and has attracted interest of substantial companies, which have not hesitated to make a sizable investment in this controversial ore. Their confidence has been bolstered by a guarantee from the Atomic Energy Commission, a Federal agency, to mine operators covering prices and agreeing to buy the ore at least until March 31, 1962.

Atlas Corp., an investment company which has enjoyed marked success over the past quarter century, belongs in this category. With about $15 million invested in uranium properties in this country and Australia, Atlas has become one of the leading factors in the mining of that ore. Atlas prefers to limit itself to proven ventures in uranium rather than assume the high risks connected with "wildcatting." Thus, in the summer of 1954 the company acquired from Vernon J. Pick the Hidden Splendor Mining Co. after studies had been made by geologists and engineers brought in by Atlas. At the time of purchase less than 300,000 tons of ore had been indicated, but that estimate has been more than doubled since Atlas took over. Hidden Splendor, on the Colorado plateau, turned out 5,000 tons of ore monthly this summer amid indications that production would rise substantially before yearend.

### Regular Mining Operation

If uranium ventures have been disastrous for the fly-by-nights, they haven't accounted for any handsome dividends for stockholders of old-line companies either. But the substantial companies such as Atlas, Anaconda, Vanadium Corp. of America and Climax Molybdenum are ploughing millions of dollars into construction and research around Colorado, Utah, Arizona and New Mexico. The weekend prospector and his Geiger counter have been elbowed aside as companies with topnotch management and know-how settle down to a regular mining operation. With the emphasis on production, there is little place for the persevering prospector. The bulk of the plateau's surface deposits already have been snapped

up and checking for underground mineral is an expensive business.

The cost of reaching a deposit of uranium ore ranges to $30,000. Even then, the deposit may not prove sufficiently large or rich enough to make it commercially profitable. The A. E. C. long has had a standing offer of a $10,000 bonus for the first company to deliver 20 tons of raw ore containing 20% uranium. No one has claimed it. Hidden Splendor, one of the richest deposits, checked .4% uranium. Because of the low uranium-to-raw-ore ratio, processing mills to extract the element must be built close to the mines. With mine output soaring, processors find it difficult to keep pace. The A. E. C. is being swamped with uranium.

Although total ouptut is a closely-guarded national secret, it is known that production until recently, had been doubling each 18 months since 1949. Ore now is being taken from nearly 1,200 claims, against 620 in 1953. Among the mill expansions undertaken this year are Anaconda's quadrupling of original capacity at Grants, N. M. Also being enlarged are Vanadium's mills at Durango and Naturita, Colo., Climax's plant at Grand Junction, Colo., the Kerr McGee Oil Industries mill at Shiprock, N. M., and the A. E. C.-operated mill at Monticello, Utah. Heavy outlays for construction and exploration in these instances account for the current lack of profit in uranium.

### Something New Added

As if the people who have pioneered in uranium discovery have not had enough trouble, a frightening element was introduced in August. Word from the United Nations Atoms-for-Peace Conference in Geneva threw the industry into confusion and probably contributed to the latest reaction in uranium equities. Much of the news from Switzerland centered on harnessing the H-bomb's fusion power for peace and the atomic fuel possibilities of thorium. An English scientist asserted: "It is likely that thorium will be a more valuable fuel even than uranium." This led to speculation that uranium in the future may be used only to start a thorium reaction. Fuel for a controlled fusion process would probably be lithium or heavy hydrogen or a combination of the two.

Work by leading American scientists, however, indicates it is much too early to determine which of the basic atomic fuels will have the engineering and economic characteristics to capture the long-term atomic energy market. There are at least 100 different types of fission reactors that are feasible from a scientific standpoint. Most interest now centers in two basic types: A slow neutron reactor that would start with uranium 235 and convert thorium to fissionable uranium 233; and a fast neutron reactor that would start with uranium 235 and convert uranium 238 to plutonium. Which of these will prove better is not yet established.

An American scientist at the Geneva conference noted that the total amount of thorium in the earth's crust appears to be three times the amount of uranium. He added, however, there is some informed opinion that workable deposits of thorium may be less common than workable deposits of uranium. There is even more uncertainty about the status of research to achieve a controlled H-bomb reaction, though scientists in this country are believed to be closer to this goal than the A. E. C. has been willing to admit. A member of the agency, nevertheless, did say recently that at the moment plans for the development of the civil uses of atomic energy "depend primarily upon the availability and the use of uranium."

### Thorium Threat Derided

At all events, the publicity from Geneva stirred the ire of leaders in the uranium mining industry. To reassure investors, they asserted that thorium offers no short-term threat to uranium. Commercially available fusion energy was termed "just a gleam in the scientist's eye." Noting that the A. E. C. guarantees the price of uranium to mine operators until 1962, Atlas has stated the ore bodies it owns or controls can be mined out before the deadline, hence: "We can't lose. It's just a question of how much profit we will make." Atlas believes this country will require 4 million tons of uranium ore a year by 1965. The present rate of mining is far below that figure.

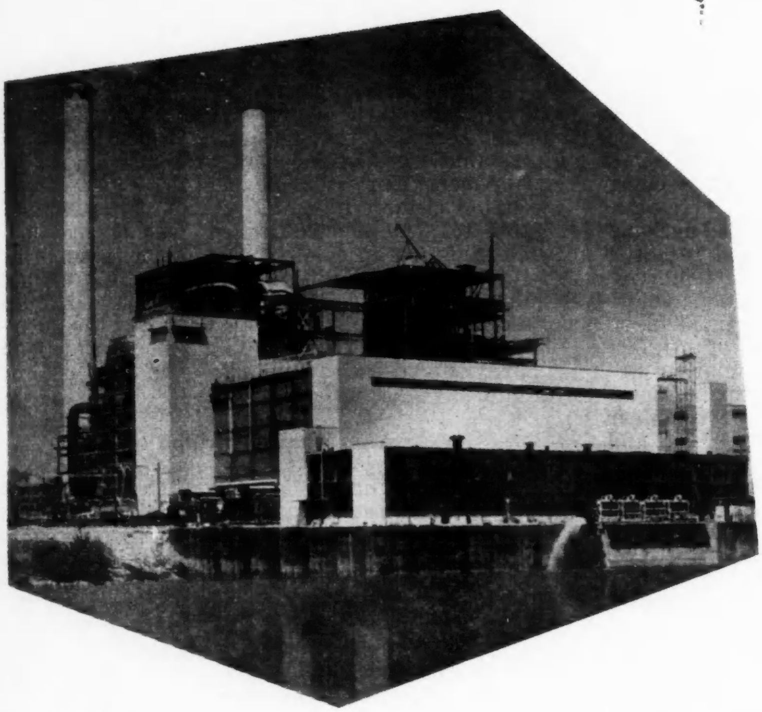
Thorium is not a new metal. Indeed, it was used widely early in this century in the manufacture of gas lamps. Rich deposits exist in Brazil, India, Ceylon, Malaya and Indonesia. Brazil and India, however, have embargoed exports of monozite, a sand from which comes thorium. As a result, the United States gets the bulk of its ore supplies from the mines of the Anglo-American Corp. of South America. In this country, monozite sand is found in Florida, the Carolinas, Idaho and Wyoming. Some vein deposits containing thorium have been found in Colorado and California. These deposits could assume great importance (*Please turn to page* 162)

***Major Companies With a Stake in Uranium***

| | 1954 Earnings Per Share | 1954 Dividend Per Share | 1955 Estimated Earnings Per Share | 1955 Indicated Dividend Per Share | Price Range 1954-55 | Recent Price | Div. Yield |
|---|---|---|---|---|---|---|---|
| Anaconda Co. | $ 3.07 | $ 3.00 | $ 7.75 | $ 3.00 | 83 -47 | 62 | 4.8% |
| Atchison, Top. & St. Fe | 12.35[1] | 7.00 | 15.00[1] | 7.00 | 40¾-34¼ | 130 | 5.3 |
| Atlas Corp. | 4.47 | 1.90 | 4.40 | 2.00 | 48¾-38⅜ | 40 | 5.0 |
| Climax Molybdenum | 6.07 | 3.00 | 6.75 | 3.50 | 80¾-56 | 57 | 6.1 |
| Homestake Mining Co. | .83[2] | 2.00 | .80[2] | 2.00 | 48 -35⅛ | 35 | 5.7 |
| New Jersey Zinc | 1.58 | 1.25 | 2.75 | 1.25 | 48⅞-38¾ | 38 | 3.2 |
| Shattuck Denn | .48[2] | .25 | .75 | .40 | 13 - 8⅜ | 11 | 3.6 |
| Union Carbide & Carbon | 3.10 | 2.50 | 4.75 | 2.75 | 116¼-80⅜ | 98 | 2.8 |
| Vanadium Corp. of Amer. | 2.50 | 1.30 | 3.75 | 1.65 | 47½-36¼ | 36 | 4.5 |

[1] Before funds. [2] After depletion.

# Philadelphia Electric



## A Utility with Dynamic Prospects

By F. A. WILLIAMSON

It has been long recognized that the electric industry was one of steady growth which based on past records, was expected to double its output every ten years. It now begins to appear this estimate will have to be revised upward with the changing pattern in electric loads from a wintertime toward a summertime peak.

This changing pattern was sharply delineated by Philadelphia Electric Company last summer when demand for its electric service reached record high levels, surpassing use in the winter months for the first time in its long history. This increase, while reflecting widespread use of air conditioning, ventilating, and refrigerating equipment in homes, industrial plants and commercial establishments during the warm weather, also reflects the continued uptrend in residential and industrial electric consumption with the greater use of an increasing number of electric appliances and the rise in industrial plant output.

Increased cooling loads are but one element in Philadelphia Electric's growth. More important contributors have been the steady increase in population and the great industrial expansion taking place in the company's territory. This consists of 2,340 square miles in southeastern Pennsylvania and northern Maryland with a population of approximately 3.5 million which PECO—short for Philadelphia Electric Co.—system supplies with electricity with gas being furnished to a number of suburban areas and urban communities outside of Philadelphia and which are experiencing a greater growth than most other areas in the nation. During the 10 years from 1940 to 1950 the population of the suburban area increased from 869,700 to more than 1.1 million, a gain of 27%, exceeding the rate of growth in the same period of 80% of the counties in the nation and all but eight of the 48 states.

*Cromby, the newest electric generating station, near Phoenixville, Pa., where a turbine generator of 150,000-kilowatt capacity was placed in service in 1954. A second unit of 200,000-kilowatt capacity is scheduled for completion in 1955.*

### More Residential Electric & Gas Users

Growth of the suburban population has naturally added an increasing number of customers to Peco's lines. Moreover, a majority of the newer homes, more fully equipped for electric living, use, on an average, a greater amount of electricity, the average residential consumption running about 3.408 kilowatt-hours last year, compared with overall company average of 2.431 and a national average of 2.528 kilowatt-hours. In this suburban area also many of the new houses have been equipped for gas-heat, a development that accounts in part for Peco's current rank among the top 20 independent gas distribution companies in the nation. Its gas revenues in 1954 amounted to $27.9 million, approximately three times its 1944 gas revenues of $8.9 million. A factor in this increase has been the foresightedness of Peco in securing an adequate supply of natural gas. With the advent of natural gas transportation by pipelines from the Southwest, Peco quickly contracted for an aggregate of 57 million cubic feet per day from two major pipeline companies. This supply of 1000 Btu

natural gas, supplementing the various sources of manufactured gas, enabled the company to increase the heat content of gas supplied consumers from 520 to 801 Btu, thus increasing the capacity of its gas system at minimum cost.

### Industrial Expansion in Delaware Valley

Although gas revenues last year represented 14.2% of total revenues compared with 9.1% ten years ago, Peco continues to be regarded as essentially an electric utility with electric operating revenues steadily rising with the growth of population and the industrial expansion of the Delaware Valley area of which the City of Philadelphia is the essential core. This Valley area, often called the "Valley of Opportunity" is one of the largest oil refining centers of the nation.

At Morrisville, the U. S. Steel Corp., located its new fully integrated Fairless Steel Works, and all through the Valley area a number of new or expanded industries which provide great diversification of enterprise and stability representing more than 85% of all industrial classifications. At Levittown, in the Morrisville section, there has arisen on recently farmed land, a whole new community which upon completion will be the tenth largest in Pennsylvania, with a population of 60,000, a shopping center and other community facilities. In 1954, new business for Peco was influenced by the industrial expansion of the Valley, customers contracting for additional annual use of 625 million kilowatt-hours, four billion cubic feet of gas, and 500 million pounds of steam. In comparison with electric operating revenues steam heating, distributed to customers in central Philadelphia, accounts for a small percentage of sales but, nevertheless, contributed $4.1 million to total operating revenues in 1954, increasing $302,547 or 7.9% over 1953, and by approximately three times steam revenues in 1944.

In keeping with the industrial expansion taking place in the Valley, a new vigorous Greater Philadelphia is rising. Located within easy reach of the markets of one-third of the nation, the Philadelphia area is served by three trunkline railroads and its highway system which has long made fast trucking possible, has been improved by addition of the modern Pennsylvania and New Jersey Turnpikes, and several new bridges and expressways are in planning or construction stage. Ranking as the second largest port in the U. S., it has excellent facilities for handling oil, grain, coal, ores and general cargo. These facilities include grain elevators, coal-dumpers and ore-unloading machines capable of transferring cargo from or to railroad cars at amazing speeds. As the second largest port it is also one of the busiest with more than 3,000 regularly scheduled sailings a year and handling about 12 billion gallons of oil and oil products, up to 10 million tons of coal, and over 4 million tons of iron ore. With continued industrial expansion in the Valley the importance of the Philadelphia area as a port appears destined to increase.

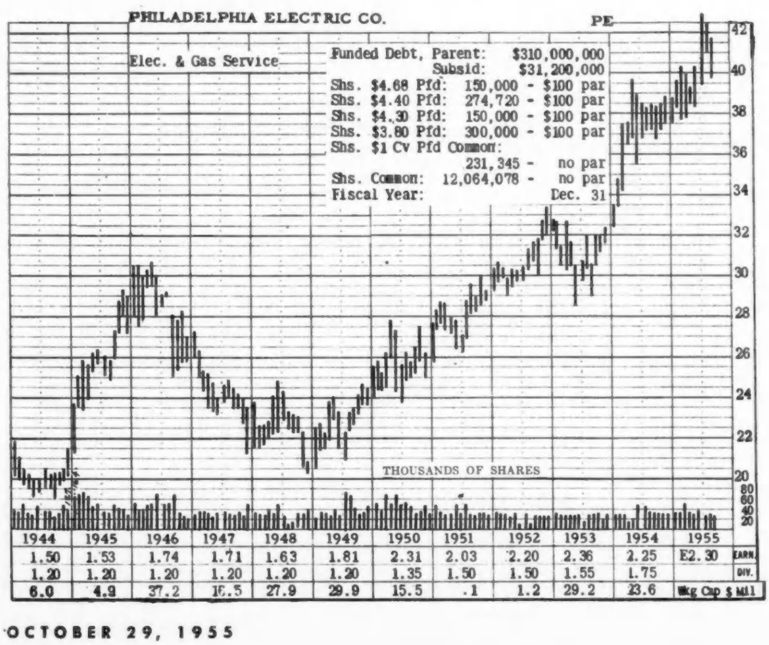
Peco's growth, as it has in the past, can be expected to keep pace with its electric output being sustained by the essential nature and diversity of industry in its service area. In the last five years, its indexes of both industrial sales and electric output have been above the U. S. production index, indicating that the company's relative position in the national situation has been improved by the expansion in the Delaware Valley area. With a continuation of this trend, the further growth of Peco, it is reasonable to believe, can be expected to equal or exceed the national economic growth over the next several years, at least.

### Uptrend in Operating Revenues

Within the past 10 years, its total operating revenues have just

***Comparative Balance Sheet Items***

| ASSETS | December 31 1945 (000 omitted) | 1954 | Change |
|---|---|---|---|
| Cash & Marketable Securities | $ 19.708 | $ 39.802 | +$ 20.094 |
| Receivables, Net | 7.263 | 13.787 | + 6.524 |
| Materials & Supplies | 5.382 | 18.802 | + 13.420 |
| Other Current Assets | —— | 1.273 | + 1.273 |
| TOTAL CURRENT ASSETS | $ 32.353 | $ 73.664 | +$ 41.311 |
| Plant & Equipment | $425.335 | $812.697 | +$387.362 |
| Investments & Funds, etc. | 8.273 | 4.712 | — 3.561 |
| Other Assets | 8.968 | 3.250 | — 5.718 |
| TOTAL ASSETS | $474.929 | $894.323 | +$419.394 |
| LIABILITIES | | | |
| TOTAL CURRENT LIABILITIES | $ 27.418 | $ 50.002 | —$ 22.584 |
| Other Liabilities | 1.206 | 1.975 | + .769 |
| Reserve for Depreciation | 67.836 | 160.300 | + 92.464 |
| Other Reserves | .767 | 1.396 | + .629 |
| Long Term Debt | 180.968 | 321.200 | + 140.232 |
| Preferred Stock | 27.954 | 88.686 | + 60.732 |
| Common Stock | 137.816 | 189.937 | + 52.121 |
| Subsidiary Stocks | 12.000 | —— | — 12.000 |
| Contrib. Aid Construct. | 2.602 | 5.634 | + 3.032 |
| Surplus | 16.362 | 75.193 | + 58.831 |
| TOTAL LIABILITIES | $474.929 | $894.323 | +$419.394 |
| WORKING CAPITAL | $ 4.935 | $ 23.662 | +$ 18.727 |
| CURRENT RATIO | 1.1 | 1.4 | + .3 |



about doubled, increasing from \$98.5 million for 1944 to \$196.3 million for the year ended last December 31. Electric operating revenues, over the decade, increased from \$88.2 million to last year's \$164.3 million with net income keeping pace, increasing from \$15.8 million in the earlier year, equal to \$1.50 a common share outstanding at that time, to \$30.8 million, or \$2.25 a share on the amount of common stock outstanding at the 1954 year-end. New record highs are indicated for 1955. This outlook is based on first half-year results showing total operating revenues of \$107.9 million, up by approximately \$5.8 million from the 1954 first half-year, with net income expanding to \$19.1 million from \$18.4 million for the like period a year ago. On a per share basis the latter figure was equal to \$1.50 for the 10,883,628 shares then outstanding compared with \$1.43 on 12,064,078 shares outstanding at the end of June, 1955, indicating net income for the current year, estimating conservatively, at \$2.30 a common share.

This, however, is no measure of Peco's earnings power. With the end of World War II, the company had geared its expansion program to meet the industrial, commercial, and residential growth taking place in its area during the last decade, in order to insure adequate and dependable electric, gas, and steam service. The money required to finance the construction program was supplied partly from operations, these sources being retained earnings, amounts set aside for depreciation, and other internally generated funds. The needed balance was raised through the sale of securities, the most recent sale of common stock being made in June, 1954, when 878,878 shares were sold, netting the company slightly more than \$29.4 million. In April, 1955, Peco sold, under competitive bidding \$50 million in 3.125% 1st and Refunding Mortgage Bonds at 99.53% of principal amount, or a total of \$49,765,000, at a net interest cost to the company of 3.15%. A substintial portion of funds from the sale of this issue, however, went to redeem \$30 million principal amount of 3.875% bonds.

### \$453 Million in New Facilities

Since 1945 to the end of last year, Peco's expenditures for new construction ran to \$453 million. Some idea of the scope of this program can be had by the fact that within the decade the company constructed a completely new electric utility equal to the wartime Philadelphia Electric Co. which had been developed over the previous half century. Building of new generating and distributing facilities, to satisfy the steadily growing electrical requirements of the company's area, has been pushed to such an extent that today Peco can deliver twice as much electricity as it could only a decade ago.

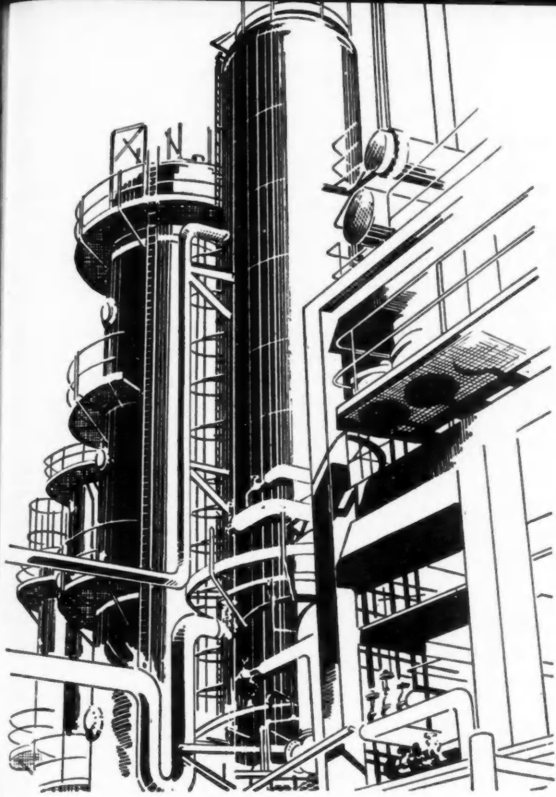
It has been said of Peco that it was spending at the rate of \$1 million every week in carrying out its expansion program. On the basis of 1954 expenditures, this is an understatement. In that year alone, total capital outlay was in excess of \$66.5 million. Of that amount, approximately \$56.1 million went for electric facilities, \$7.9 million for gas facilities, about \$700,000 for steam facilities, and the balance of \$1.9 million for general facilities used in all operations. And the end is not yet. Between this year and 1959, an additional \$312 million is expected to be spent on new facilities, bringing expenditures for postwar construction to more than three-quarters of a billion dollars. The schedule as laid out for 1955 calls for an outlay of approximately \$76 million. Included in plans for the future is the construction of one of the largest and most efficient electric generating units ever designed. This unit, scheduled for service in 1959, will be the first of several at the recently acquired Eddystone, Pa., site, and will operate at the highest pressure and temperature so far used by the industry. The new unit while adding more than 10% to Peco's generating capacity, will have fuel requirements of about 8000 Btu per kilowatt-hour produced as compared with approximately 13,250 Btu average for the industry, and 6% less than in the most efficient power station now in operation or contemplated.

Completion of the Eddystone unit will be preceded by a new 175,000 kilowatt high efficiency generating unit that has been authorized for service in 1958 at Schuylkill station in Philadelphia. This is another significant forward step toward greater efficiency and lower costs in the production of electricity, taking its place in this respect alongside the new Cromby generating station which on completion of the second unit this year will add 350,000 kilowatts capacity in one of the rapidly growing areas of suburban Philadelphia. As the result of the postwar construction, Peco is operating a greater proportion of modern, more efficient and nearly automatic equipment, producing electricity (*Please turn to page* 168)

**Long Term Operating and Earnings Record**

| | Total Operating Revenues | Depreciation and Amount | Federal Income & Other Taxes (Millions) | Net Operating Revenues | Fixed Charges & Other Deductions | Net Income | Net Per Share | Div. Per Share | Price Range High Low |
|---|---|---|---|---|---|---|---|---|---|
| 1955 (12 months ended July 31) | \$203.3 | .... | .... | \$39.1 | \$7.7 | \$31.4 | \$2.26 | [1]\$1.80 | [2]43 -37½ |
| 1954 | 198.3 | 20.7 | 39.0 | 38.1 | 7.8 | 30.9 | 2.25 | 1.75 | 39¾-32¼ |
| 1953 | 187.0 | 18.7 | 36.2 | 36.1 | 6.8 | 29.7 | 2.36 | 1.55 | 32⅞-28½ |
| 1952 | 175.3 | 17.2 | 36.4 | 33.3 | 6.6 | 27.3 | 2.20 | 1.50 | 33⅜-29 |
| 1951 | 165.0 | 16.5 | 35.0 | 31.0 | 6.3 | 25.4 | 2.02 | 1.50 | 30 -25⅝ |
| 1950 | 155.5 | 15.4 | 29.6 | 34.2 | 6.5 | 28.5 | 2.31 | 1.35 | 27⅞-23⅜ |
| 1949 | 140.0 | 14.2 | 23.0 | 31.7 | 9.3 | 23.1 | 1.81 | 1.20 | 24¾-20⅜ |
| 1948 | 130.1 | 12.8 | 19.5 | 27.6 | 8.6 | 19.5 | 1.63 | 1.20 | 24⅞-20¼ |
| 1947 | 115.9 | 11.4 | 17.3 | 25.4 | 6.0 | 19.8 | 1.71 | 1.20 | 27¼-21⅜ |
| 1946 | 105.4 | 9.4 | 16.4 | 25.1 | 5.6 | 19.7 | 1.74 | 1.20 | 30¾-24⅞ |
| 1945 | 100.6 | 8.4 | 22.6 | 23.6 | 6.4 | 19.3 | 1.53 | 1.20 | 29⅜-21⅛ |
| 10 Year Average 1954-1955 | \$147.3 | \$14.4 | \$27.5 | \$30.6 | \$6.9 | \$24.3 | \$1.95 | \$1.36 | 39¾-20¼ |

[1] Indicated total 1955 dividend. [2] To October 7, 1955.



# Chronic 1952-1955 Laggards

## Which to hold - Where to Take Tax Losses

By J. C. CLIFFORD

Issues making up the group to which the appellation "laggards", from the standpoint of price movement, has been applied are by no means those which are, for one reason or another, sometimes referred to as "cats and dogs". On the contrary, many of them bear good, solid names and have paid dividends, in some instances, over a long period of time. These are issues making up the list of 41 laggards appearing on the opposite page. It should prove of particular interest, especially to investors holding any of these stocks inasmuch as it depicts their market course in each year from 1952 to 1955 (to date) inclusive.

### A Cause for Investor Concern

It is evident from these price ranges some of the issues in the list have been more than "laggards". Certain stocks with this designation were in an almost complete state of lethargy marketwise throughout all of the four years. Others, on occasion, displayed increased animation, scoring price gains within one year or another of from several to as much as 10 points or more. These upswings, however, almost invariably had a disheartening aftermath. Price improvement invited selling, including, no doubt, short sales, by those less optimistic over the immediate outlook of the companies represented by these issues. Naturally, failure of issues in this group to hold price gains, especially in the favorable market climate of recent years, has been a cause of concern to those carrying these stocks in their investment portfolios. Of even greater concern to those with funds frozen in them are the stocks that have fallen pricewise from their previous high estates, receding from their 1952 highs to where they are currently selling at or close to the lowest level in the three ensuing years. Such market trends are indicative of the fact that these stocks have lost favor possibly because of adverse developments within the companies or their status has been materially affected by economic changes.

Whatever the reason, the market lethargy of some of the stocks in the list and the inability of others to maintain some sort of price equilibrium in a generally strong stock market, points up the importance of continuous analysis and frequent evaluation of stocks making up an investment portfolio. If this vigilance has not been maintained it is not too late to start now. The principal objective, naturally, would be to determine which laggard stocks should be held and which should be sold.

### Turning a Loss Into a Tax Advantage

Undoubtedly, selling some laggard stocks at prevailing prices will entail a loss. By taking such action between now and the last business day of the current year, the loss can be turned to an advantage by offsetting, partially, at least, capital gains during the year or, if no such gain was taken, then in effecting a saving on the tax payable on ordinary income. Tax savings in some instances, could be quite substantial whether the net capital loss evolves from a long- or short-term transaction. Where the net capital loss, long- or short-term, is applied against ordinary income, up to $1,000 of such loss may be deducted from taxable income. In the case of a married couple filing a joint return and whose 1955 taxable income came to $8,000, the tax saving would

be $220. For an individual not filing a joint return and having an $8,000 1955 taxable income, the saving would be $300. Net capital loss from either or both long- and short-term stock transactions, in excess of $1,000, can be applied against income in each of the five next succeeding years or until exhausted, as a short-term loss. In applying net capital losses to net capital gains, it should be remembered that the tax law requires that long-term losses must first be applied against long-term gains after which the balance of long-term losses can be applied to offset short-term gains.

The few brief references to the Federal income tax law set forth herein are merely to give the reader some idea of the advantages in the way of tax savings through establishing capital losses. Because of the complexity of the law it would be advisable for an investor to consult his attorney or other qualified tax expert so that he may be reliably and accurately guided in the steps to be taken.

The main objective of this article is to point out the tax saving opportunities by establishing capital losses rather than continue to hold a security that for some reason or other has gone awry as an investment medium. The prime consideration, of course, is which stocks to continue holding and which to sell for tax saving purposes. Some aid in determining this is offered by the symbols alongside each issue in the accompanying list. It should be obvious that those to which the "sell" symbol has been appended are regarded as less desirable, from the immediate market viewpoint, to retain. However, in disposing of certain of these stocks an investor need not lose his position, except for a brief time, as the law permits repurchase at any time after the lapse of 30 days, without impairing the privilege of using the capital loss for tax purposes. From a perusal of the accompanying tabulation it will be noted that certain issues in the list have been designated with an "S". These are stocks that, we believe, should be sold for the purpose of establishing a tax loss and the proceeds of sale used to purchase other stocks that will improve the investment position. We have designated other issues with "S-1". These are stocks that also can be sold for tax purposes but which, in consideration of their longer-term prospects, may be repurchased at the expiration of the 30-day period.

Readers contemplating establishing capital losses for tax purposes should find the following comments on issues selected from this group of value:

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*Abbott Laboratories* because of its high quality and its record as a reliable income producer can be held. At current price of 39½, the yield from the $1.80 annual dividend is 4.5%. However, for those holding this issue bought at or near the top of the 1952 market or at the highs of the three subsequent years might consider selling a part of their holdings around today's price for the purpose of establishing long-term capital loss. For those desiring to maintain their position repurchases could be made after the lapse of 30 days. There appears to be little to warrant the belief that Abbott common stock should score any immediate appreciable upturn in market value nor does there appear to be any basis for expecting the shares to soon recover to anything like the 1952 high of 64. Like other drug issues in that year, Abbott was caught up in the somewhat speculative fever in this group, the stock being bid up largely as a result of publicity given to the so-called "miracle drugs", but without much regard to earnings which for that year amounted to $2.25 a share. Since then earnings in each year have held fairly steady, being equal to $2.35 a share in 1953 and $2.21 in 1954, and indications, based on 1955 first-half results, are that for the current year, net earnings will approximate $2.30 a share.

*Atlantic Refining.* Although a colorless performer in the market when compared with other issues in the oil group in recent years, the stock is worth holding for the dependable $2.00 annual dividend which at current price provides a yield of 5.5%. As in previous years, net income for the first six months of 1955, equal to $2.03 a share, was sufficient to cover full year's dividend needs. This year's first half net, however, was down from $2.14 a share shown a year ago, the decline reflecting higher general expenses; state restrictions on production making it necessary to purchase additional crude from others, and charges for depreciation, depletion, amortization and retirements, which were higher than for the 1954 first half-year by more than $3.9 million. Last year, Atlantic Refining sold its Eastern Hemisphere marketing subsidiaries for an estimated net profit of close to $30 million, it being Atlantic Refining's plans to use the proceeds in developing its Western Hemisphere facilities. Expenditures in 1954 of $68.3 million for new plant and equipment was probably duplicated in 1955, with more than half of the total going into crude production, including offshore development in the Texas-Louisiana sector of the Gulf of Mexico where test drilling has met with favorable results.

*Celanese Corp., of America,* currently selling around 20¼ is within about four points of a four year low of 16 reached in 1954. In view of this, coupled with brighter prospects for improved earnings, there is no point in long-term holders of the stock selling now. For the half-year to last June 30, net income for the common stock increased to 83 cents a share from a deficit of 16 cents a share for the like period of 1954. Contributing to the better showing has been the improvement in the textile industry which, if continued through the balance of the year, should be aided, so far as Celanese is concerned by the sale of its promising new textile fiber "Arnel", introduced to the market early in 1955. Another important factor may be its new "Fortisan", a high strength industrial yarn that was scheduled to go into production this month. Although the Fortisan process was primarily devised for fine yarns, its high strength and dimensional ability makes it particularly suitable for heavy power transmission belts, welding hose, body armor, truck tires and many other uses. Celanese, already diversified in plastics and chemicals, plans a new chemical plant for the production of plasticizers used principally in fire-retardant hydraulic fluids for the automotive and aircraft industries.

*Merck & Co.,* currently selling around 20, is yielding 4.0% on the 80 cent annual dividend. The stock is worth retaining for long-term growth. Net earnings in 1954 equal to $1.09 a share, compared with 96 cents in the previous year, and the further gain

registered in the first six months of this year, net for that period amounting to 65 cents a share, up from 54 cents a year ago, is indicative of the progress made in combating price competition through improvements in processes and increased operating efficiency. A further improvement is looked for in the final half of this year that should pull net earnings for the full 12 months up to about $1.40 a share. While continued gain in earning power may be comparatively slow, Merck's stronger marketing organization as a result of the Sharp & Dohme acquisition, and continued research leading to the introduction of improved and new drugs provides a good foundation for sales expansion and greater earning power.

*Hazel-Atlas Glass,* one of the 41 laggards in the accompanying tabulation, is distinguished from the majority in the group for the reason that in the almost four years from the beginning of 1952, the stock has moved within the extremely narrow range of six points. More specifically, the stock fluctuated between a high of 23 and a low of 17. Currently, the issue prevails around 22, within a point of its best price in four years. From this market record it should be obvious that Hazel-Atlas, compared with other glass company issues, has been a market laggard. A different interpretation of the price movement since 1952, however, would point up the stock's market stability which undoubtedly has appeal to the conservative investor interested in this good grade stock for its dependable income, dividends on the capital stock having been paid without interruption in each of the past 44 years. Hazel-Atlas has no funded debt nor preferred stock and is therefore able to pay out a substantial proportion of earnings to shareowners.

*G. C. Murphy Co.,* currently selling at 41, within two points of its 1952-55 (to date) absolute low, is worth retaining in view of the completion in 1954 of the three-year program of integration of the Morris stores, the progress made in modernizing a number of older retail units, and the expansion of operations with emphasis placed on locations in shopping centers. The 1955 earnings outlook is for a good improvement over the $3.28 a share for the common stock in 1954, down from $3.54 in 1953. This 7% decline reflected the general economic leveling and more particularly the lower rate operations in the steel industry and related operations during a good part of last year. These conditions had a direct effect upon the company's sales inasmuch as operations are centered to a large extent in eastern industrial sections. Consolidated sales and earnings for the six months to last June 30 support the improved 1955 outlook. Sales in the first half-year of $81.7 million were up by approximately $4.6 million over a year ago and net for the common stock increased from $1.07 to $1.20 a share for a 12% gain. July sales showed a gain of 8%, thus maintaining the uptrend which should accelerate with the opening of new stores and normally greater volume of sales in the second half-year.

*Westinghouse Air Brake,* currently selling fractionally above 25, is at its year's low, and about 3½ points under 28½, the price at which it prevailed just prior to the general market break touched off by news of President Eisenhower's illness. The improved market tone of this issue previous to this development reflected the good earnings prospects of the company this year, chiefly on increased air brake business with the rail equipment makers, a higher sales volume for its Union Switch & Signal Division, and the longer-range outlook for diversified operations outside the rail equipment field. These include the manufacture of a wide range of portable drilling equipment through the George E. Failing Co., Division, and the Le Tourneau-Westinghouse Co. Division, makers of earth moving equipment which line was rounded out in January of this year by the acquisition of J. D. Adams Manufacturing Co., a long-established and highly regarded manufacturer of road grading equipment. Supporting this outlook are earnings for the first half of this year equal to 78 cents a share, indicating full year's earnings close to $2 a share, compared with $1.88 in 1954 only after a $4.2 million net income tax credit. Without this credit 1954 net income would have been equal to about 85 cents a share. —END

## *41 Laggard Stocks 1952-1955*

| | | Price Range (*) 1952 | 1953 | 1954 | 1955 | Recent Price |
|---|---|---|---|---|---|---|
| Abbott Lab. | H | 64-41 | 47-39 | 49-40 | 48-39 | 39 |
| Admiral Corp. | S | 32-24 | 23-18 | 29-18 | 30-21 | 21 |
| Amer. News | S | 36-31 | 37-20 | 27-15 | 38-26 | 28 |
| Anderson, Clayton | H | 53-40 | 45-32 | 45-33 | 44-34 | 34 |
| Armour & Co. | H | 12- 8 | 12 -8 | 14 -8 | 16-13 | 14 |
| Atlantic Refin. | H | 36-31 | 33-25 | 39-27 | 40-34 | 35 |
| Beech-Nut Pack. | H | 31-25 | 30-27 | 35-28 | 34-27 | 27 |
| Best & Co. | H | 29-25 | 27-22 | 32-24 | 35-30 | 32 |
| Case (J. I.) Co. | S | 30-22 | 25-14 | 19-13 | 19-14 | 14 |
| Celanese Corp. | H | 51-33 | 38-18 | 26-16 | 26-20 | 20 |
| Chickasha | $S^1$ | 18-13 | 14-10 | 21-11 | 22-15 | 19 |
| Collins & Aikman | S | 22-17 | 24-13 | 20-12 | 21-17 | 18 |
| Com'l Solvents | H | 35-17 | 22-16 | 22-15 | 26-19 | 20 |
| Congol.-Nairn | $S^1$ | 25-21 | 24-20 | 23-17 | 25-21 | 21 |
| Elliott Co. | $S^1$ | 32-24 | 33-22 | 29-23 | 31-21 | 20 |
| Endicott Johnson | H | 30-26 | 29-25 | 29-26 | 34-28 | 32 |
| Green (H. L.) | H | 41-36 | 40-29 | 33-28 | 34-30 | 31 |
| Hazel-Atlas Gl. | H | 23-19 | 21-17 | 23-18 | 24-21 | 22 |
| Hershey Choc. | H | 42-37 | 44-37 | 50-38 | 48-40 | 44 |
| Heyden Chem. | S | 24-14 | 18-12 | 18-14 | 20-15 | 17 |
| Holland Furnace | S | 22-19 | 22-10 | 18-10 | 16-13 | 13 |
| Homestake Min. | $S^1$ | 39-33 | 41-32 | 52-33 | 48-35 | 35 |
| Int. Min. & Chem. | H | 41-31 | 39-27 | 42-28 | 41-30 | 30 |
| Island Creek | H | 39-26 | 30-15 | 23-14 | 29-20 | 25 |
| Kresge (S. S.) | S | 39-24 | 37-31 | 34-26 | 32-28 | 29 |
| Lerner Stores | S | 25-21 | 22-16 | 20-16 | 23-19 | 20 |
| Lorillard (P.) | H | 25-20 | 30-23 | 26-21 | 25-21 | 21 |
| McCrory St. | S | 17-14 | 15-11 | 15-12 | 16-14 | 15 |
| McLellan St. | S | 26-23 | 26-18 | 25-18 | 29-21 | 23 |
| Merck & Co. | H | 35-22 | 25-17 | 23-17 | 30-20 | 20 |
| Mohawk Carpet | S | 31-24 | 32-22 | 26-19 | 32-23 | 28 |
| Murphy (G. C.) | H | 57-49 | 50-43 | 47-39 | 47-40 | 41 |
| Nat'l Distill. | H | 34-19 | 23-16 | 24-16 | 23-19 | 19 |
| Philco | $S^1$ | 36-26 | 36-26 | 39-28 | 43-31 | 30 |
| Reed Roller Bit | $S^1$ | 22-18 | 22-16 | 22-16 | 27-19 | 21 |
| Richfield Oil | H | 74-53 | 65-43 | 77-48 | 79-64 | 69 |
| Schenley Ind. | $S^1$ | 33-23 | 28-20 | 22-17 | 27-21 | 21 |
| Stevens (J. P.) | H | 44-32 | 36-25 | 30-22 | 29-24 | 25 |
| United Fruit | H | 64-53 | 58-44 | 57-45 | 60-51 | 52 |
| Victor Chem. Works | H | 32-24 | 29-24 | 36-26 | 37-31 | 30 |
| Westinghouse Airbrake | H | 27-24 | 29-22 | 27-22 | 32-25 | 25 |

* High and low prices with fractions excluded. H—Hold. S—Sell. $S^1$—Sell, repurchasing at end of 30-day period.

# WHAT YOU SHOULD KNOW ABOUT HIGHWAY BONDS

By JOHN D. C. WELDON

Since 1940, when the Pennsylvania Turnpike was opened as a toll highway, the pay-as-you-ride system of constructing superhighways has captured the imagination of state officials who must cope with the ever-increasing volume of vehicular traffic that has plagued each of the 48. Progress of the toll-road system was slowed by the war years and as recently as 1950 there were but 400 miles of such highways in operation. This rose to 747 miles by April, 1954, then jumped to 1,464 miles by early 1955. Mileage under construction rose to 1,394 on March 1, 1955, from 1,225 just 11 months earlier. Toll-road mileage authorized, but not under construction, increased from 2,890 to 3,272 in the same period and roads proposed from 593 miles to 2,644.

This would appear to be just a beginning, for our highways are overcrowded and unsafe. The nation now is paying the price for decades of underbuilding in the face of a tremendous rise in highway traffic. Since we face, at a conservative estimate, a 50% increase in traffic over the next decade, the state of American highways will become radically worse unless something is soon done. Washington has kicked around (the phrase is apt) plans for a 10-year highway program that would involve expenditures upwards of $100 billion. There have been numerous versions of the kind of highway program needed, but definitive action has not been forthcoming.

Meanwhile, the states have been going forward on their own, unable to wait for a comprehensive Federal program. Toll highways have been authorized in a score of states. An even better idea of the spread of the toll-highway system may be obtained from the completion this fall of the 241-mile Ohio Turnpike, a vital link in a chain that will enable motorists to go from New York to Chicago without pausing for a traffic light. All they will have to do is pay the tolls. The Chicago-New York expressway should be a reality by late 1956, when the Jersey and Pennsylvania pikes are linked up and the Indiana section hooked into the network.

### Financed By Bonds

Construction of toll highways is financed through sales of bonds, holders of which are vitally interested in securing the interest on these indentures and payment eventually of principal. The Pennsylvania Turnpike Act, passed in 1937 and authorizing issuance of turnpike revenue bonds of the Commonwealth, marked the beginning of turnpike financing as it is known today. There and in most other states a new agency has been created, but in a few states

the established state highway commission has been made the agency. In some states the agency is authorized by the enabling act to issue revenue bonds in the name of the state, as in Pennsylvania and followed by West Virginia, Maryland, Ohio and Kentucky. In other states the agency is authorized to issue revenue bonds in its own name, as in the act creating the Maine Turnpike Authority.

Such legislation invariably requires the state authority designated to fix and charge tolls sufficient, with other revenues (restaurant and gasoline-station concessions), to pay the cost of maintaining, repairing and operating the turnpike and to pay principal and interest to bondholders, along with creation of reserves for such purposes. In this connection, recent flood damage in the Northeast sector of the country was covered by a combination of insurance (generally, not extensive) and reserve maintenance funds. In the 15 years of the existence of toll highways there have been no major damages to these roads, nor have insurance companies bid for major coverage.

In the interest of the bondholders, the states must pledge revenue to the payment of the bonds. In most states the net revenues of the turnpike are pledged. Authorities on the subject of highway financing often have argued that gasoline taxes collected on a toll highway should be turned into the fund, unless prohibited by the state constitution, as in the case of Maine. In some instances, bonds are guaranteed by the state.

### All Roads Lead to New York

On heavily traveled routes, it has been demonstrated, toll roads can be built as self-liquidating projects. The New Jersey Turnpike is an outstanding example of the feasibility of private financing of these highways. Trucks and passenger cars bound for New York from the West and South use this highway which, in the space of a few years, has made every engineering traffic estimate look foolish. The linkup with Pennsylvania and the New York State Thruway should give additional spurts to the already heavy traffic on the Jersey Turnpike. It is the No. 1 expressway money-maker.

Its success prompted the construction of another Jersey toll road, the Garden State Parkway. Opened for its full length this spring, it marked up in July a 70% increase in revenues over June. Some of this revenue, of course, was at the expense of the turnpike. In any event, the Jersey pike, for the first time in its history, failed in July to chalk up a monthly revenue total higher than the preceding month. July revenues totaled $2,187,000, against $2,252,000 for July, 1954. The record for the Jersey Turnpike's first six months of 1955, however, bears out the pattern of progress characteristic of the facility since it was opened. The income for the first half totaled $11,069,000, a 6% rise from the same 1954 period. This record explains why Jersey Turnpike bonds sell at a premium.

The one superhighway that so far is out of step in the parade of traffic-booming toll roads is the West Virginia Turnpike. It was completed in November, 1954 at a total cost of $133 million. Much of the original 88-mile section is only two-lane, although allowance was made in construction for paving two additional lanes. Plans are being considered for extensions of this road, northward to connect with the pikes in Pennsylvania and Ohio and southward to link up with proposed turnpikes in western Virginia and North Carolina. When finished, this route is expected to be an important link between the Great Lakes area and the increasingly industrialized Southeast.

### The Road to Nowhere

But that is all in the future and, meanwhile, the West Virginia Turnpike has come to be known in the investment community as "the road to nowhere." The bonds are available at little better than 69 cents on the dollar.

Construction engineers performed skillful surgery on the mountains of that state to streamline the highway, which extends from near the North Carolina line to Charleston. A scenic wonder, it was fashioned primarily for commercial vehicles rather than sightseers. Unfortunately, trucks have not been using it the way traffic engineers had estimated. For the first seven months of 1955, revenues totaled $1,520,000. Advance estimates of engineers for the first full year of operation ran $5.5 million. With only five months to go, it is hardly likely that earnings can (*Please turn to page* 164)

***Toll-Highway Bonds***

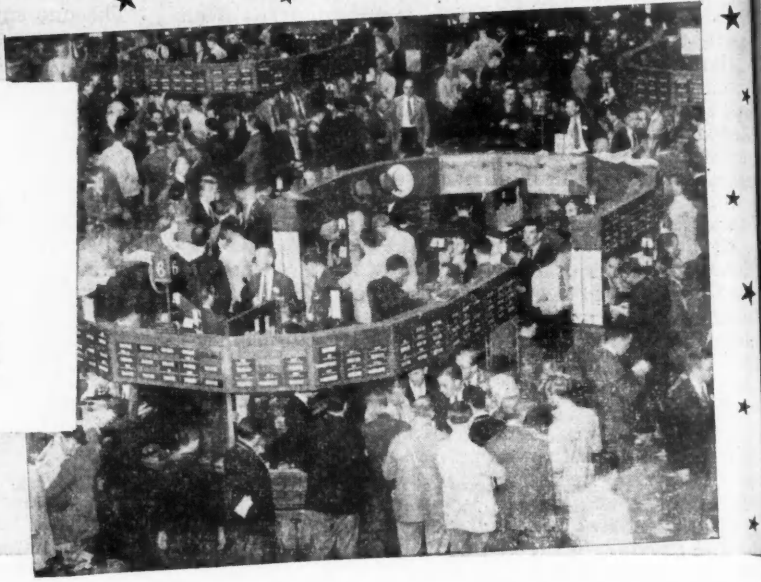
| Road | Selling to Yield | Amt. of Issue (in millions) | COMMENTS |
|---|---|---|---|
| New York State Thruway.... | 2.5% | $ 50 | Guaranteed by state, which also has issued revenue bonds. |
| New Jersey Turnpike.......... | 3 | 34 | A construction - improvement loan for this most successful of toll roads. |
| West Virginia Turnpike........ | 5.6 - 6 | 133 | Revenues have failed to come up to expectations. Interest has been capitalized into next year and is being paid. |
| Massachusetts Turnpike .... | 3 | 239 | Issued to yield 3.3%, bonds are selling at premium. |
| Florida State Turnpike........ | 3.5 | 74 | Brought out to yield 3.25%, bonds are selling at a discount. Construction cost below estimates. |

***Major Turnpike Projects***

| Toll Road | Size of Issue (in millions) | Offered to Yield | Due |
|---|---|---|---|
| Dallas-Houston Turnpike ........................ | $130* | — | — |
| Florida State Turnpike ............................ | 74 | 3.25% | 1995 |
| Indiana East-West .................................. | 280 | 3.50 | 1994 |
| Massachusetts Turnpike ........................ | 239 | 3.30 | 1994 |
| New York State Thruway ...................... | 50** | 2.35 - 2.60 | 1985 |
| Oklahoma Turnpike ............................... | 63*** | — | — |

* A renewed effort to sell these bonds now is being made.
** The Thruway has been offering bond issues since May, 1953. Including this issue (state-guaranteed), it has outstanding $300 million of state-guaranteed bonds, $350 million of revenue bonds and $50 million in notes.
*** State has a commitment from syndicate that will underwrite issue in 1956, first part of a program that is expected to entail more than $200 million of financing.

# FOR PROFIT AND INCOME



**Enough?**

In the stock market the psychological shock of surprising bad news, excluding something like the start of a war, generally wears off within a few weeks. At lowest closing level up to this writing, the Dow Industrial average fell a bit over 10% in about two and a half weeks after word of the President's heart ailment. That might be enough for a while, although a total fall of roughly 15%, which is possible, to the 420-415 area would provide a more solid base. For reference, the drop following Truman's surprising 1948 election was about 10% in four weeks. (The rest of that downtrend to mid-1949 was a non-political minor bear market geared to business and profit recession which we do not have in sight now). The construction of the Dow average multiplies actual average point movement of the 30 stocks more than five fold, whereas the individual investor, of course, figures actual points change in prices of stocks he holds. In these practical terms, the September bull-market high for the 30 Dow stocks was roughly 90, the recent lowest close was around 80, and the possible 420-415 level, given further fall, would be roughly 75.

**Stampede**

To a considerable extent, investment reason and analysis "go out the window" in a market stampede. In a strongly rising market a man with, say, a 30-point profit in a given stock, especially if it is of better than average grade, is reluctant to sell because of the capital gains tax, and because he hopes for still more profit, with the latter generally the most decisive influence. In a falling market, he sees his profit quickly cut to 15 points, and he is scared that the rest of it may evaporate. So, despite the capital gains tax—which should never be a dominating consideration anyway—he sells to clinch some profit. Many others do likewise. A market stampede follows no rule of reason in start or end. There are tentative indications that this market is now past the stampede phase, even though the test is not yet by any means conclusive.

**Selectivity**

If this is correct, fewer people will now be inclined to sell stocks, excepting issues with inferior prospects, on rallies; and more will be inclined to buy desirable issues on dips. But the previous mood of "aggressive optimism" is not likely to be restored within the presently foreseeable future. The tendency probably will be for buyers to trade up, setting more exacting standards in valuation of individual issues. In general, we expect better support for investment-grade stocks, especially where price-earnings ratios and yields are "reasonable", than for speculative issues, regardless of yields or price-earnings ratios of the latter.

**Stocks**

The few stocks recently attaining new highs for 1955 or longer are mostly inactive, little known, off-beat such as General Cigar, Sieberling Rubber, Ritter, Textron and White Dental. Exceptionally soft stocks have been, of course, far more numerous. Among better-known names, a partial list includes Amerada Petroleum, Abbott Laboratories, Armstrong Cork, Beech Nut, Bendix Aviation, Carrier, Celanese, Clevite, Corn Products, Columbia Broadcasting, Dixie Cup,

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1955 | 1954 |
|---|---|---|---|
| Mead Corp. | 16 weeks Oct. 2 | $2.07 | $1.37 |
| Filtrol Corp. | Quar. Sept. 30 | 1.37 | .77 |
| Republic Pictures Corp. | 39 weeks July 30 | .54 | .25 |
| Amer. Tel. & Tel. | Quar. Sept. 30 | 2.74 | 2.58 |
| Addressograph-Multigraph | Year July 31 | 7.86 | 5.75 |
| Kansas City Sou. Ry. | 8 mos. Aug. 31 | 3.70 | 3.14 |
| Waukesha Motor Co. | Year July 31 | 2.59 | 1.99 |
| Grand Union Co. | Quar. Aug. 27 | .48 | .37 |
| Grace (W. R.) & Co. | 6 mos. June 30 | 2.14 | 1.66 |
| Potomac Electric Power | 12 mos. Aug. 31 | 1.22 | 1.10 |

Homestake, International Harvester, Johns-Manville, Minneapolis-Honeywell, National Biscuit, National Cash Register, National Distillers, Pure Oil, Schenley, Skelly Oil, Sutherland Paper, Thompson Products, Vanadium, Westinghouse Electric, Wheeling Steel and Worthington.

**Westinghouse**

In this year of booming business, earnings of Westinghouse Electric probably will be 20% or so under 1954's $5.06 a share. One reason is the usual lag of shipments of heavy equipment behind orders, which have been rising this year, whereas they were down in 1954. Another is the effects of price cutting on heavy electrical equipment. Yet the fact remains that, in the same general field, General Electric figures to earn at least moderately more this year, perhaps 5% to 10% more, than last year's $2.30 a share.

**Air Lines**

Following a large prior rise, air transport stocks shifted from a bull trend to a suspiciously pronounced downward trend some time before the recent general "bust" in the market. There are two reasons: (1) Earnings will be hampered by increasingly competitive cut-rate air-coach business. (2) The specter of transition to turboprop and jet transports, involving huge capital outlays, has additionally cast a chill on the market for these stocks. Pan American recently made first-page news by announcement that it had ordered 45 jets, to cost a total of $269 million, with deliveries to start in late 1958 and 1959; and Eastern Air Lines made news a bit earlier with announced commitment to spend $100 million for turboprop planes and $125 million for jets. With orders already placed for conventional plans, this would mean a total outlay of some $350 million for Eastern. This is not good news for stockholders, as we see it. It points to huge and rising depreciation charges ahead and to continuing low dividends because of capital needs. The long-range history of passenger transport of any form has been mostly uninspiring, involving putting capital in, but eventually getting a low return, or no return, on it. The railroads carry passengers at an over-all loss. The U.S. steamships operate on subsidies. Greyhound, the biggest bus operator, had its best year back in 1946 with profit of $2.11 a share on a consolidated basis, on revenue of $174 million. With 30% more revenue in 1954, it netted only $1.35 a share. Air lines have had honeymoon periods of good earnings, with this year included. But it is problematical how their long-pull experience will compare with that of older forms of passenger haulage, when and if plane designs and needed capital investment stabilize. The stocks are speculative, and currently shape up as better sales than buys.

**Income Stocks**

Market decline has raised average yield on representative industrials stocks (the general type used in the Dow average and similar indexes) to around 3.9% from roughly 3.5% at the September market high; and that of electric utilities to around 4.7% from a recent low of about 4.4%. Present yields are still very far from generous, when compared with those available during nearly all of the period 1949-1953. But more good-grade income stocks than in some time are currently available at secure yield around 5% or more. Some examples, suitable for conservative investment, are American Telephone, American Snuff, American Tobacco, Beneficial Finance, International Shoe, Kresge, National Biscuit, Pacific Lighting, Reynolds Tobacco, Southern Natural Gas, Standard Brands, Union Tank Car, United Shoe Machinery and Woolworth.

**Automobiles**

The hopeful consensus at Detroit is that output and sales of 1956 cars should about equal, or slightly exceed, this year's. Yet most divisional heads are predicting 10% or 20% gains, or what have you, for their particular makes. Obviously, this does not add up, and somebody is going to be disappointed. Since the stimulus of important design changes is generally absent, we find it hard to imagine that volume will better this year's, and would not be surprised if it proves to be somewhat less. We would hold the stock of General Motors on a long-pull basis, but defer new buying. Chrysler is harder to figure, It is not high on likely 1955 earnings around $12 a share, against 1954's depressed $2.13. But it is high on the present $3 dividend. As recently as 1950, earnings were $14.69 a share, dividends $9.75, with the stock reaching a high of $84\frac{1}{2}$. It has fallen less than the industrial list recently, receding from high of $97\frac{7}{8}$ to $91\frac{5}{8}$ currently. Some good news is expected early in November—a moderate dividend boost or a year-end extra of maybe $1.50 or $2, and possibly a stock split or large stock dividend.

**Growth Utilities**

We emphasize again that at present levels selected electric utility stocks are relatively attractive on the basis of limited risk and promise of gradual, but substantial, longer-range appreciation. Potentials for gain are best in issues subject to above-average growth of earnings and dividends. Examples include American Gas & Electric, Arizona Public Service, Florida Power, Central & South West, California Electric Power, Gulf States Utilities and Texas Utilities.

**Marked Down**

Some good growth stocks are now available at substantially marked-down prices; and purchases made here, or on moderate further concession, should work out well on a longer-range basis. The examples include duPont, Eastman Kodak, National Lead, Johnson & Johnson, and Pittsburgh Plate Glass.

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

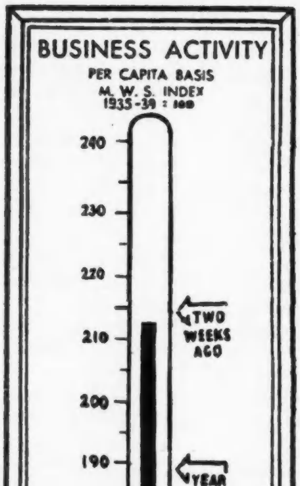
| | | 1955 | 1954 |
|---|---|---|---|
| Smith-Douglass Co. | Year July 31 | $2.12 | $2.51 |
| Continental Motors | 9 mos. July 31 | .54 | .89 |
| Sheaffer (W. A.) Pen Co. | Quar. Aug. 31 | .32 | .56 |
| Kansas Power & Light | 6 mos. June 30 | .96 | .99 |
| Outlet Co. | 6 mos. July 31 | 3.45 | 4.39 |
| Shamrock Oil & Gas | 9 mos. Aug. 31 | 3.25 | 2.39 |
| United Electric Coal Cos. | Year July 31 | 1.01 | 1.04 |
| Amer. & Foreign Power | 12 mos. June 30 | 1.94 | 2.40 |
| Bangor & Aroostook R. R. | 8 mos. Aug. 31 | 4.21 | 4.44 |
| Hollinger Cons. Gold Mines | 6 mos. June 30 | .18 | .26 |

## The Business Analyst

# WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

Whatever the psychological reaction to the President's illness may be—and it has already been substantial in the stock market—its effect on business has been negligible to date. Corporate leaders have given no sign to date that the altered political pattern has changed their plans to expand.




Their optimism may be traced to the fact that the outlook for business, over the short term at least, is good. Since the so-called recession of 1954, the economy has made a most impressive recovery. Gross national product, which is the sum total of the country's output of goods and services, increased from a seasonally adjusted annual rate of $359 billion in the third quarter of 1954 to $385 billion in the second quarter of this year and probably rose another few billion during the third quarter of 1955. With the notable exception of agriculture, the economy's year-long expansion appears to have proceeded in fairly well-balanced fashion. Increases have been recorded for all major categories of consumer and business spending.

What the President's illness and the subsequent decline in the stock market may have prompted is a tempering of the *excessive optimism* that prevailed until now. As an example, the scramble to acquire raw materials has abated somewhat and, as a result, prices of these industrial components have lost a measure of their buoyancy. The change first became conspicuous in markets overseas, but the uncertainty over inventories has grown quite apparent in the United States, too. Two of the most price-inflated industrial raw materials, copper and rubber, have proved vulnerable.

Domestic copper production has been at full-tilt levels since the work stoppage earlier this year and while the material remains in short supply, many users are convinced that this situation will not be of long duration. The quest for substitute materials already has been spurred by sky-high prices for the red metal. As for rubber, supplies probably will be adequate for the next few months, helped by the slack period growing out of automotive model changeovers. The sharply increased use of synthetic rubber, of course, has contributed importantly toward keeping the spiral within bounds.

The present attitude of business people might best be described as common-sense optimism, a condition that stems from many factors, not the least of these being consumer spending. Retailers are enjoying a banner fall and looking forward to the greatest Christmas business in their history. There is a feeling in merchandising circles that the lofty sales peak of September would have reached even greater heights but for the imbalance in stocks. Continued poor deliveries kept inventories in various departments below full strength on numerous items. Good business and stock gaps are causing many merchandising executives to come into the market earlier than planned. Many of these buyers are covering such needs as housewares into December because of expected delivery tightening on items of brass, aluminum and certain gauges of stainless steel. Holiday bookings on a wide variety of apparel also are heavy.

Nowhere has this vigor been more outstanding than in the automotive industry. Intensive promotions of the past few months have whittled away what threatened to become onerous inventories of 1955 models. With the decks cleared for their 1956 makes, the industry is planning to produce at even higher levels than the record-breaking 1955 total. It remains to be seen whether the public can take down such a volume of cars, on the order of 8 million passenger vehicles.

Thus, it would appear that, all in all, the economy has achieved a further expansion in the third quarter, although the rate of advance was somewhat slower than earlier in the year. The final three months, by the very nature of things, should see a sizable pickup. It remains to be seen, however, whether the present pace can be carried over into 1956.

# The Business Analyst

# HIGHLIGHTS

**MONEY & CREDIT**—Borrowers in need of short-term funds are feeling the pinch in earnest these days, as seasonal demands, added to the requirements of a humming economy, combine to push the cost of money to new highs. In recognition of the tight situation, the banks have now raised the rate on prime loans to 3½%, a 25-year high and the second increase this year. The Treasury itself had to pay the annual equivalent of 2.333% in mid-October, for money borrowed via 91-day bills, a new high since June, 1953, and dealers in commercial paper boosted the return on this financing instrument for the tenth time this year. The latest increase, one-eighth of one percent, raised the yield on best grades to 2¾%, which compares with a 1¼% charge early this year.

Federal Reserve policy is of course a prime factor in the tightness of short-term funds, with three increases in the rediscount rate so far this year—to the current 2½% level—and a tight rein on the Central Bank's buying of Government securities, effectuating the credit-tightening policy. In recent weeks, credit needs have risen so rapidly that the Federal has been forced to buy bills to prevent a disorderly market, but this has not prevented another fall in the free reserves of the member banks, further restricting their lending power. Unless the Federal Reserve intervenes in an even bigger way, short-term yields may continue to rise until seasonal demand begins to wane early next year.

The hectic condition of short-term money centers found no reflection in the markets for long-term securities where investors were bidding strongly for available high-grade bonds. Long-term Treasury issues were generally higher in the two weeks ending October 17, price changes in corporate bonds were mostly on the plus side and tax-exempts were in strong demand. In fact, improvement in the latter sector has reached the point where borrowers, who had refused to accept this Summer's low bids, have now been able to get better terms, Cook County and the New York State Thruway Authority being cases in point.

The healthy demand for medium and long-term issues in the face of the sharp rise in short-term interest rates has puzzled some investors, although its causes are not far to seek. Of primary significance is the widely held conviction that the period of tight credit is a temporary condition. This has encouraged investment for the long term, at what are considered currently high returns, while borrowers, who do not want to saddle themselves with heavy interest charges for long periods, are concentrating on short-term loans. The Federal Reserve has intensified this situation by concentrating all its credit control instruments on the short-term field and this could even result in some near-term money costs topping long-term rates, before the period of tight credit is over.

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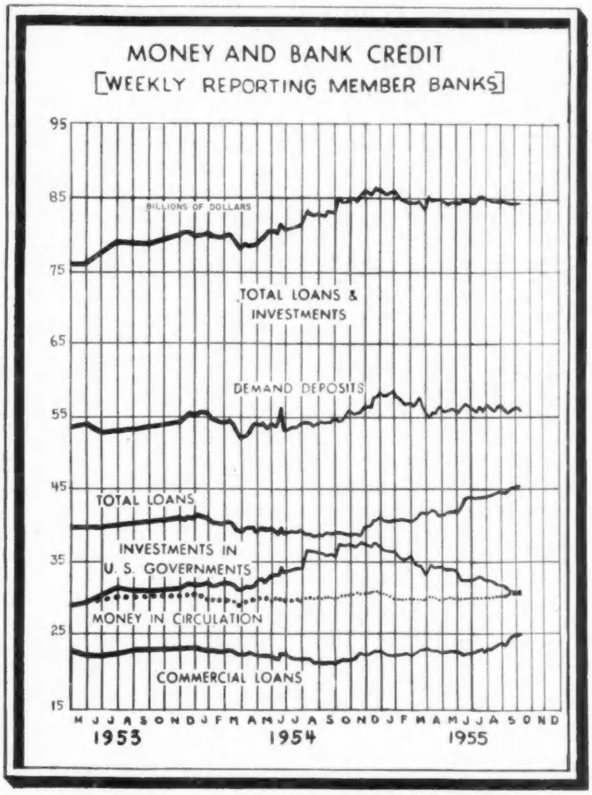
**TRADE**—Country-wide retail sales in September were valued at $15.9 billion, on a seasonally adjusted basis,




1% above August and 11% ahead of a year ago, according to the preliminary report of the Commerce Department. Sales of most major retail groups showed improvement over August, although automotive dealers experienced a seasonal decline.

There has been no visible slackening in retail demand in the first two weeks of October, with year-to-year gains still being maintained, according to estimates by Dun & Bradstreet.

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**INDUSTRY**—Industrial output was somewhat higher in September, and the Federal Reserve Board's production index rose to a seasonally adjusted 141% of the 1947-1949 average, from 140 the previous month. Gains were confined to the durable goods sector, while nondurables and minerals were little changed.

A slight easing of output rates for some industries was noted early in October. The MWS Business Activity Index fell to 212.8, from the previous week's level of 214.3. Indicators which were off a bit in the latest week included crude oil runs to stills, freight car loadings and paperboard production.

# Essential Statistics

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **MILITARY EXPENDITURES—$b (e)** | July | 2.8 | 3.7 | 3.0 | 1.6 |
| Cumulative from mid-1940 | July | 596.5 | 593.7 | 555.2 | 13.8 |
| **FEDERAL GROSS DEBT—$b** | Oct. 7 | 277.3 | 277.4 | 278.9 | 55.2 |
| **MONEY SUPPLY—$b** | | | | | |
| Demand Deposits—94 Centers | Oct. 5 | 55.9 | 56.3 | 54.3 | 26.1 |
| Currency in Circulation | Oct. 12 | 30.6 | 30.5 | 30.2 | 10.7 |
| **BANK DEBITS—(rb)**** | | | | | |
| New York City—$b | Aug. | 67.8 | 60.7 | 67.0 | 16.1 |
| 343 Other Centers—$b | Aug. | 112.8 | 104.9 | 97.1 | 29.0 |
| **PERSONAL INCOME—$b (cd2)** | July | 304.7 | 301.2 | 287.1 | 102 |
| Salaries and Wages | July | 212 | 208 | 197 | 99 |
| Proprietors' Incomes | July | 48 | 49 | 48 | 23 |
| Interest and Dividends | July | 27 | 26 | 25 | 10 |
| Transfer Payments | July | 17 | 17 | 16 | 10 |
| **(INCOME FROM AGRICULTURE)** | July | 14 | 14 | 15 | 3 |
| **POPULATION—m (e) (cb)** | Sept. | 165.7 | 165.5 | 162.9 | 133.8 |
| Non-Institutional, Age 14 & Over | Sept. | 117.6 | 117.5 | 116.4 | 101.8 |
| Civilian Labor Force | Sept. | 66.9 | 67.7 | 65.2 | 55.6 |
| Armed Forces | Sept. | 3.0 | 3.0 | 3.3 | 1.6 |
| unemployed | Sept. | 2.1 | 2.2 | 3.1 | 3.8 |
| Employed | Sept. | 64.7 | 65.5 | 62.1 | 51.8 |
| In Agriculture | Sept. | 7.9 | 7.5 | 7.5 | 8.0 |
| Non-Farm | Sept. | 56.9 | 58.0 | 54.6 | 43.2 |
| Weekly Hours | Sept. | 42.5 | 42.6 | 38.0 | 42.0 |
| **EMPLOYEES, Non-Farm—m (lb)** | Aug. | 49.8 | 49.4 | 48.1 | 37.5 |
| Government | Aug. | 6.7 | 6.7 | 6.6 | 4.8 |
| Trade | Aug. | 10.6 | 10.6 | 10.3 | 7.9 |
| Factory | Aug. | 13.2 | 13.0 | 12.4 | 11.7 |
| Weekly Hours | Aug. | 40.8 | 40.4 | 39.7 | 40.4 |
| Hourly Wage ($) | Aug. | 1.89 | 1.89 | 1.79 | 77.3 |
| Weekly Wage ($) | Aug. | 77.11 | 76.36 | 71.06 | 21.33 |
| **PRICES—Wholesale (lb2)** | Oct. 11 | 111.2 | 111.4 | 109.7 | 66.9 |
| Retail (cd) | July | 208.6 | 207.8 | 209.7 | 116.2 |
| **COST OF LIVING (lb2)** | Aug. | 114.5 | 114.7 | 115.0 | 65.9 |
| Food | Aug. | 111.2 | 112.1 | 113.9 | 65.9 |
| Clothing | Aug. | 103.4 | 103.2 | 103.7 | 59.5 |
| Rent | Aug. | 130.5 | 130.4 | 128.6 | 89.7 |
| **RETAIL TRADE—$b**** | | | | | |
| Retail Store Sales (cd) | Aug. | 15.7 | 15.5 | 14.2 | 4.7 |
| Durable Goods | Aug. | 5.8 | 5.6 | 4.8 | 1.1 |
| Non-Durable Goods | Aug. | 9.9 | 9.8 | 9.4 | 3.6 |
| Dep't Store Sales (mrb) | Aug. | 0.90 | 0.94 | 0.84 | 0.34 |
| Consumer Credit, End Mo. (rb) | Aug. | 33.6 | 32.9 | 28.7 | 9.0 |
| **MANUFACTURERS'** | | | | | |
| New Orders—$b (cd) Total** | Aug. | 29.0 | 27.0 | 21.9 | 14.6 |
| Durable Goods | Aug. | 15.4 | 13.6 | 9.8 | 7.1 |
| Non-Durable Goods | Aug. | 13.6 | 13.5 | 12.2 | 7.5 |
| Shipments—$b (cd)—Totals** | Aug. | 27.4 | 26.7 | 23.1 | 8.3 |
| Durable Goods | Aug. | 13.8 | 13.5 | 10.9 | 4.1 |
| Non-Durable Goods | Aug. | 13.5 | 13.2 | 12.2 | 4.2 |
| **BUSINESS INVENTORIES, End Mo.**** | | | | | |
| Total—$b (cd) | July | 79.2 | 78.8 | 77.6 | 28.6 |
| Manufacturers' | July | 43.9 | 43.8 | 43.4 | 16.4 |
| Wholesalers' | July | 11.9 | 11.8 | 11.8 | 4.1 |
| Retailers' | July | 23.4 | 23.2 | 22.4 | 8.1 |
| Dept. Store Stocks (mrb) | July | 2.5 | 2.5 | 2.5 | 1.1 |
| **BUSINESS ACTIVITY—1—pc** | Oct. 8 | 212.8 | 214.3 | 189.0 | 141.8 |
| (M. W. S.)—1—np | Oct. 8 | 271.0 | 273.0 | 236.3 | 146.5 |

## PRESENT POSITION AND OUTLOOK

(Continued from page 151)

**COMMODITIES**—Sensitive spot commodity prices gave some ground in the two weeks ending October 14 and the Bureau of Labor Statistics' index of 22 such commodities fell 0.3%, to 89.9% of the 1947-1949 average. Industrial commodities were down 1.3% and metals gave up 2.5%. Raw foods and fats and oils were higher during the period.

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**CONTRACT AWARDS** for residential construction dipped rather sharply in September, amounting to $733 million, versus $835 million in August and $777 million in September, 1954, according to F. W. Dodge Corporation estimates for the 37 states east of the Rockies. It was the first time in 1955 that these awards had dipped below year-ago levels and tightened housing credit is getting most of the blame for the decline. On the brighter side was the expansion of other types of construction awards last month. Contracts for utility and public works rose to $593 million, 51% ahead of a year ago and nonresidential building contracts, at $709 million, were 10% above September, 1954.

* * *

The **NATIONAL INCOME** reached a new high of $321 billion, at seasonally adjusted annual rates, in the second quarter of 1955, well above the 1953 peak of $308 billion. Income payments have been rising continually from the 1954 low of $299 million, with the biggest increases centered in manufacturing, mining and transportation, which had been most affected by the 1953-1954 recession. Farm income was the only component to decline, falling to $11.0 billion at annual rates, from $11.9 billion a year ago. Corporate profits after taxes were up sharply, to $21.4 billion in the latest quarter, from $16.8 billion a year ago.

* * *

Total **EMPLOYMENT** was seasonally lower last month, but was still the biggest September in history, with 64.7 million people holding jobs, a 2.5

# and Trends

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **INDUSTRIAL PROD.—la np (rb)** | Sept. | 141 | 140 | 124 | 93 |
| Mining | Sept. | 121 | 120 | 108 | 87 |
| Durable Goods Mfr. | Sept. | 160 | 158 | 137 | 88 |
| Non-Durable Goods Mfr. | Sept. | 125 | 125 | 115 | 89 |
| **CARLOADINGS—t—Total** | Oct. 8 | 807 | 820 | 703 | 933 |
| Misc. Freight | Oct. 8 | 392 | 400 | 348 | 379 |
| Mdse. L. C. L. | Oct. 8 | 65 | 67 | 66 | 66 |
| Grain | Oct. 8 | 55 | 56 | 48 | 43 |
| **ELEC. POWER Output (Kw.H.) m** | Oct. 8 | 10,639 | 10,627 | 9,193 | 3,266 |
| **SOFT COAL, Prod. (st) m** | Oct. 8 | 9.8 | 9.6 | 8.4 | 10.8 |
| Cumulative from Jan. 1 | Oct. 8 | 349.9 | 341.1 | 290.8 | 44.6 |
| Stocks, End Mo. | Aug. | 71.0 | 68.0 | 68.6 | 61.8 |
| **PETROLEUM—(bbls.) m** | | | | | |
| Crude Output, Daily | Oct. 7 | 6.7 | 6.7 | 6.2 | 4.1 |
| Gasoline Stocks | Oct. 7 | 151 | 151 | 152 | 86 |
| Fuel Oil Stocks | Oct. 7 | 47 | 47 | 56 | 94 |
| Heating Oil Stocks | Oct. 7 | 146 | 144 | 131 | 55 |
| **LUMBER, Prod.—(bd. ft.) m** | Oct. 8 | 238 | 265 | 264 | 632 |
| Stocks, End Mo. (bd. ft.) b | July | 8.5 | 8.7 | 9.1 | 7.9 |
| **STEEL INGOT PROD. (st) m** | Sept. | 9.9 | 9.6 | 6.8 | 7.0 |
| Cumulative from Jan. 1 | Sept. | 85.8 | 75.9 | 64.2 | 74.7 |
| **ENGINEERING CONSTRUCTION AWARDS—$m (en)** | Oct. 10 | 346 | 464 | 269 | 94 |
| Cumulative from Jan. 1 | Oct. 10 | 14,944 | 14,598 | 12,218 | 5,692 |
| **MISCELLANEOUS** | | | | | |
| Paperboard, New Orders (st)t | Oct. 8 | 380 | 295 | 261 | 165 |
| Cigarettes, Domestic Sales—b | July | 29 | 36 | 29 | 17 |
| Do., Cigars—m | July | 414 | 510 | 435 | 543 |
| Do., Manufactured Tobacco (lbs.)m. | July | 13 | 18 | 14 | 28 |

## PRESENT POSITION AND OUTLOOK

million increase over September, 1954.

**UNEMPLOYMENT** receded to 2.1 million last month, a seasonal decline from the 2.2 million who were looking for work in August. A year ago, 3.2 million people were out of work. The composition of the unemployed has changed a good deal in the past year, with men 25 years old and over representing only 38% of the total as compared with 45% a year ago, while the proportion of unemployed adult women has increased.

* * *

**PASSENGER TIRE** shipments fell to 8,102,642 units in August, a 2.8% drop from the previous month. The decline was confined to original equipment, reflecting the contraction of factory auto assemblies. Tire output of 7,585,098 tires in August was 3.9% under July but far ahead of the 4,708,586 units turned out a year ago. With shipments in August running ahead of production, tire inventories in manufacturers' hands were down 4.6% from July.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

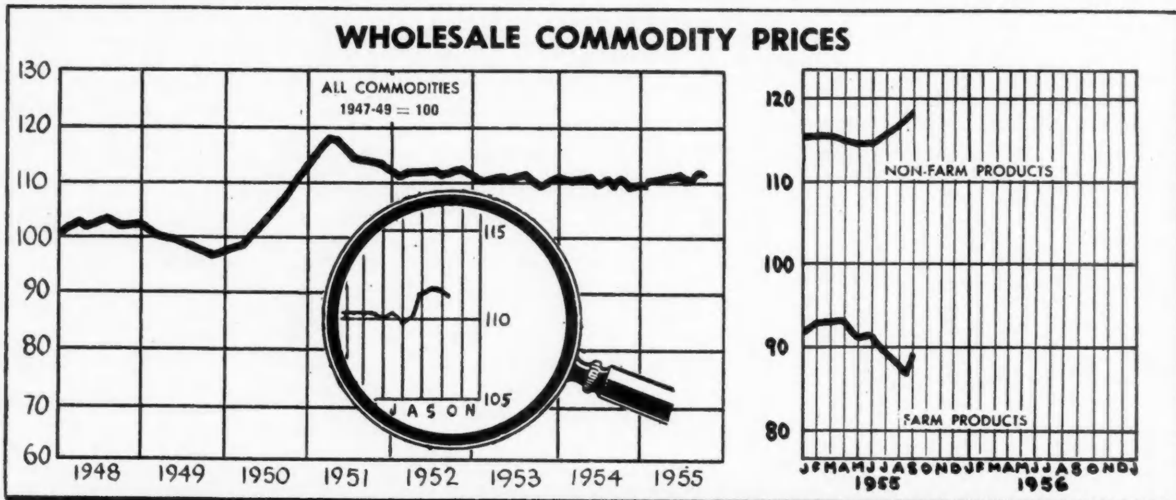
| No. of Issues (1925 Cl.—100) | 1955 Range High | 1955 Range Low | 1955 Oct. 7 | 1955 Oct. 14 |
|---|---|---|---|---|
| 300 Combined Average | 329.8 | 282.0 | 307.4 | 300.1 |
| 4 Agricultural Implements | 348.7 | 264.9 | 313.5 | 308.1 |
| 3 Air Cond. ('53 Cl.—100) | 116.0 | 87.0 | 88.2 | 87.0L |
| 10 Aircraft ('27 Cl.—100) | 1084.9 | 871.7 | 964.4 | 964.4 |
| 7 Airlines ('27 Cl.—100) | 1263.6 | 971.2 | 1013.0 | 971.2 |
| 4 Aluminum ('53 Cl.—100) | 388.1 | 191.1 | 340.8 | 323.1 |
| 7 Amusements | 180.6 | 147.0 | 163.0 | 156.6 |
| 9 Automobile Accessories | 368.6 | 308.3 | 349.6 | 340.0 |
| 6 Automobiles | 55.8 | 44.3 | 52.6 | 51.2 |
| 4 Baking ('26 Cl.—100) | 30.6 | 27.8 | 28.9 | 28.4 |
| 3 Business Machines | 930.6 | 657.4 | 771.1 | 751.1 |
| 6 Chemicals | 584.5 | 466.6 | 530.5 | 520.7 |
| 3 Coal Mining | 20.3 | 14.8 | 17.6 | 17.1 |
| 4 Communications | 116.6 | 100.7 | 104.9 | 100.7L |
| 9 Construction | 127.3 | 106.4 | 115.2 | 111.9 |
| 7 Containers | 747.7 | 675.1 | 718.6 | 696.9 |
| 7 Copper Mining | 333.4 | 222.2 | 280.1 | 268.5 |
| 2 Dairy Products | 127.0 | 116.4 | 118.8 | 116.4L |
| 6 Department Stores | 100.2 | 80.0 | 92.9 | 90.5 |
| 5 Drugs-Eth. ('53 Cl.—100) | 151.2 | 129.6 | 140.4 | 135.0 |
| 6 Elec. Eqp. ('53 Cl.—100) | 174.7 | 151.3 | 151.3 | 151.3 |
| 2 Finance Companies | 651.1 | 565.1 | 595.8 | 565.1L |
| 6 Food Brands | 300.6 | 256.2 | 261.4 | 256.2L |
| 3 Food Stores | 163.7 | 137.7 | 152.1 | 147.8 |

| (Nov. 14, 1936 Cl.—100) | High | Low | 1955 Oct. 7 | 1955 Oct. 14 |
|---|---|---|---|---|
| 100 High Priced Stocks | 220.1 | 180.6 | 203.9 | 198.9 |
| 100 Low Priced Stocks | 392.5 | 343.5 | 366.7 | 358.0 |
| 4 Gold Mining | 806.0 | 649.1 | 691.9 | 656.2 |
| 4 Investment Trusts | 157.1 | 140.8 | 145.2 | 140.8L |
| 3 Liquor ('27 Cl.—100) | 1155.7 | 961.3 | 1047.7 | 1015.3 |
| 9 Machinery | 395.8 | 317.7 | 324.2 | 321.0 |
| 3 Mail Order | 217.9 | 159.3 | 204.9 | 201.6 |
| 4 Meat Packing | 134.4 | 112.8 | 114.0 | 115.2 |
| 5 Metal Fabr. ('53 Cl.—100) | 187.0 | 155.9 | 170.6 | 164.0 |
| 10 Metals, Miscellaneous | 452.3 | 358.2 | 390.7 | 387.1 |
| 4 Paper | 1057.8 | 767.1 | 960.9 | 936.7 |
| 22 Petroleum | 680.3 | 590.0 | 638.1 | 620.1 |
| 22 Public Utilities | 258.5 | 234.8 | 246.7 | 241.9 |
| 7 Railroad Equipment | 88.4 | 73.4 | 79.4 | 77.1 |
| 20 Railroads | 77.9 | 64.7 | 71.3 | 70.0 |
| 3 Soft Drinks | 565.7 | 459.9 | 487.5 | 487.5 |
| 11 Steel & Iron | 320.9 | 219.2 | 287.0 | 282.5 |
| 4 Sugar | 68.5 | 56.1 | 61.3 | 61.3 |
| 2 Sulphur | 964.0 | 813.2 | 905.4 | 888.6 |
| 10 Television ('27 Cl.—100) | 47.3 | 40.7 | 42.3 | 40.7 |
| 5 Textiles | 188.9 | 148.4 | 184.4 | 181.4 |
| 3 Tires & Rubber | 172.6 | 137.8 | 156.6 | 152.3 |
| 5 Tobacco | 95.7 | 81.9 | 92.2 | 91.4 |
| 2 Variety Stores | 315.0 | 286.9 | 293.2 | 293.2 |
| 15 Unclassif'd ('49 Cl.—100) | 158.1 | 141.9 | 144.8 | 141.9L |

L—New Low for 1955.

# Trend of Commodities

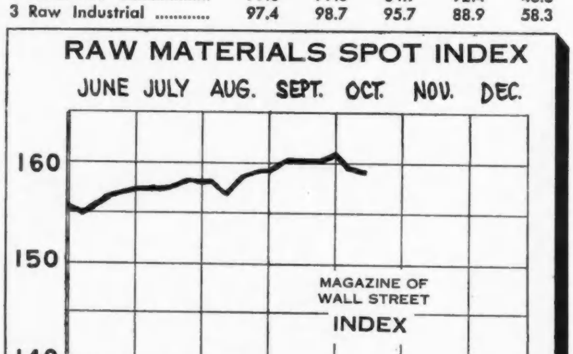
Commodity futures followed a mixed course in the two weeks ending October 18. Cotton, coffee and cocoa were higher while grains and rubber weakened. The Dow-Jones Commodity Futures Index gained 1.05 points during the period to close at 152.70. December wheat gave up 1¾ in the fortnight to finish at 201. Selling pressure was light but weakness of other grains stifled demand. Flour business was routine and foreign demand was slow for both wheat and flour. The newly seeded winter wheat crop has encountered good weather thus far and growing conditions in general are about normal. December corn lost 4½ cents in the two weeks ending October 18 to close at 127. The Government's latest estimate forecast a 3,118 million bushel crop which exceeded expectations and brought in selling. Harvesting of corn is now expanding rapidly towards a nearby peak and this has generated additional selling pressure. However, consumption is improving and this together with the Government loan program should provide long-term support. Nearby cotton futures were strong in the period under review, with the December option adding 83 points, to close at 32.76 cents. This compares with the low for the life of the option of 30.42 cents, reached on October 3. The October 10 report of the Department of Agriculture forecast a 13,928,000 bale crop, or 1,055,000 million bales more than the September estimate. However, earlier private forecasts of a bigger crop and a concomitant drop in prices had prepared the market and the official news had only a moderate influence. Distant futures have lagged in the recent upturn with traders concerned over possible price cuts on CCC-held cotton and uncertain regarding the 1956 support level.




**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES**
**Spot Market Prices — 1947-1949, equals 100**

| | Date Oct. 14 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| 22 Commodity Index | 89.9 | 90.2 | 91.2 | 90.3 | 53.0 |
| 9 Foodstuffs | 79.8 | 79.0 | 84.9 | 92.4 | 46.5 |
| 3 Raw Industrial | 97.4 | 98.7 | 95.7 | 88.9 | 58.3 |

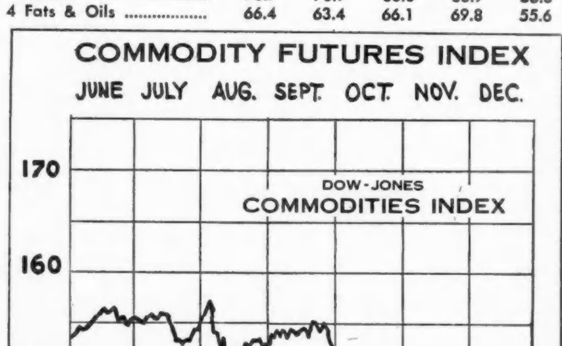
| | Date Oct. 14 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| 5 Metals | 117.7 | 120.7 | 112.2 | 101.3 | 54.6 |
| 4 Textiles | 78.7 | 78.9 | 83.0 | 86.9 | 56.3 |
| 4 Fats & Oils | 66.4 | 63.4 | 66.1 | 69.8 | 55.6 |




**14 Raw Materials, 1923-25 Average equals 100**

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1955 | 1954 | 1953 | 1951 | 1945 | 1941 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 160.5 | 154.4 | 162.2 | 215.4 | 111.7 | 88.9 | 57.7 | 86.6 |
| Low | 153.6 | 147.8 | 147.9 | 176.4 | 98.6 | 58.2 | 47.3 | 54.6 |




**Average 1924-26 equals 100**

| | 1955 | 1954 | 1953 | 1951 | 1945 | 1941 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 173.6 | 183.7 | 166.5 | 214.5 | 95.8 | 74.3 | 65.8 | 93.8 |
| Low | 150.8 | 167.3 | 153.8 | 174.8 | 83.6 | 58.7 | 57.5 | 64.7 |

## THE EDITORS' INVESTMENT CLINIC

*Case No. 10*

# The Fast Reader of News

The financial news columns in the daily newspapers provide a valuable assist to investors who busy themselves with trying to keep up with the latest developments. But they must be used discriminately. If the news is swallowed whole without reference to related factors, more harm than good is likely to come of it.

Investors, being human beings, are subject to normal human emotions. Anything which is likely to heighten such emotions can be a source of mischief in investment matters, as in life in general. For example, a financial newspaper headline which gives the impression of extraordinarily good news can, and does, cause investors to abandon caution and flock to the brokers to put in buying orders. Or, a depressing news item sensationally played up, may cause them to unload precipitously.

As a rule, it can be stated without too much qualification, that the impulsive purchase or sale of stocks on a particular item of news is something that the investor—or speculator—may live to regret. For one thing, such news, as a rule, has been discounted in the market. News that a company has declared a stock split may be news to the ordinary reader but it is not news to the top officials of the company. They know all about it, having decided some time back that they were going to vote a stock split. Between the time the decision has been made in advance privately and the time the public gets the news, the stock will undoubtedly have been well advanced in price. Thus, if the stock is bought when the news is out, the investor may find that he has bought at or near the top for the time being, at least.

By the same token, news of a cut in dividend or sharp drop in earnings is generally discounted well in advance. Those in a position to be close to the affairs of a company in temporary difficulties have no trouble in understanding some time in advance that they will be unable to maintain the dividend at the old rate or that earnings are about to take a turn for the worse. With this knowledge aforehand, insiders start selling. Thus the price of the stock is depressed long before the average investor gets the actual news.

It stands to reason that, if the investor acts on the news, under the conditions described above, he is likely to act at precisely the wrong time. The danger is that, over-stimulated by his emotional reflex, he may be encouraged by the news to take action that he should not. If he will, therefore, sit down and reflect on the news before he acts, he may find that he will do precisely the opposite of his first inclination when he read the news.

Strange to say, a too quick perusal of the stock quotations reported in the daily papers may be a source of trouble for investors. On a strong market day, the preponderance of plus signs, many of them showing large gains, may encourage him to take a flyer, particularly if he has not profited too much from the previous upswing and wants to make up for lost time. Likely as not, if he acts impulsively, he is apt to run his eyes down the stock column and pick something or other that may appeal to him at the moment. This is surely no way in which to invest money. Yet many people do just this.

Also, on a "bad" day in the market when the minus signs in the stock column are profuse, a feeling of discouragement may be engendered in the already depressed investor and he may decide, at a moment's glance, that he ought to get rid of his stocks. Generally, he picks the wrong time.

So we give this bit of advice to readers. Follow the news, look at the daily transactions reported—but don"t act on the news. Stop and take time to consider. The market will be there for a long time and you will have plenty of opportunity either to take advantage of profitable situations or, if necessary, to rectify past mistakes. This is good advice, so take it in the name of prudence.

—END

*We would welcome comments from our subscribers on investment subjects in which they are interested, and which they feel would add to the value of this Department.*

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

### Southern California Edison Company

*"As I am retired, I am interested in holding only high-grade equities where dividends are stable and where long-term growth is a reasonable expectation. Please submit recent information you have on Southern California Edison Company."*

*P. N., Paris, Tenn.*

Southern California Edison is an operating utility supplying electricity to central and southern California; the territory served is diversified as to industry, agricultural, oil fields, etc. Earnings have shown good stability and so have dividends, with consecutive payments made from 1907.

Operating revenues for the twelve months to August 31, 1955 amounted to $168,405,127 and net income to $28,455,718. This compares with operating revenues for the preceding twelve months of $148,286,283, net income $25,248,501.

For the full year of 1955, earnings per common share are estimated at $3.23, based on increased number of shares outstanding against $3.06 in 1954. The outlook for 1956 continues favorable.

Dividends at 60¢ quarterly are expected to continue.

The company has kept abreast of developments in the field of atomic energy and has engaged one of the foremost atomic scientist in the country as a consultant on this subject.

The company operating in a growth territory has good near and long-term outlook.

### Armco Steel Corporation

*"With the steel industry operating at capacity, I am particularly desirous of receiving late data on Armco Steel. Will you please include dividend rate and the outlook over coming months?"*

*W. F., Billings, Mont.*

Armco Steel Corp. is an integrated producer, with nine well-located steel plants. More than half of its products consist of flat-rolled items, in which the profit margins are wider. Over the years, the stock has achieved a good earnings and dividend record, and it is one of the better issues in the steel group.

Sales and earnings of Armco Steel reached new highs in the first six months of this year. This reflected the continued high operations in the steel industry generally. Armco operated at 102.5% of its rated capacity in the first half, compared with an operating rate of 92% of capacity in the first half of 1954.

Sales for the first six months of this year showed an increase of 23.3% over those for the corresponding period last year, and the company earned 8.5¢ on each dollar of sales, up from 7.1¢ during the corresponding period in 1954.

Armco's increase in earnings was attributed by the Chairman of the Board, Mr. Hook, to the high level of business activity and "the benefits the company is now receiving from its improvement and expansion program of recent years".

On October 6, 1955, Armco announced that company had decided to increase its expansion plans, the new costs being estimated at $110,000,000, against $60,000,000 first contemplated. The enlarged program would increase steel ingot producing capacity by early 1957 to 6,126,000 tons annually. Present annual capacity was 4,950,000 tons.

Most of the additional expenditures, above the $60,000,000 previously announced, would be put into additional steel-melting capacity.

Company has arranged with a group of eighteen banks to make available, if needed, $50,000,000 in a revolving credit fund to help finance the program. However, company expected that a substantial portion of the cost would be financed from earnings and depreciation.

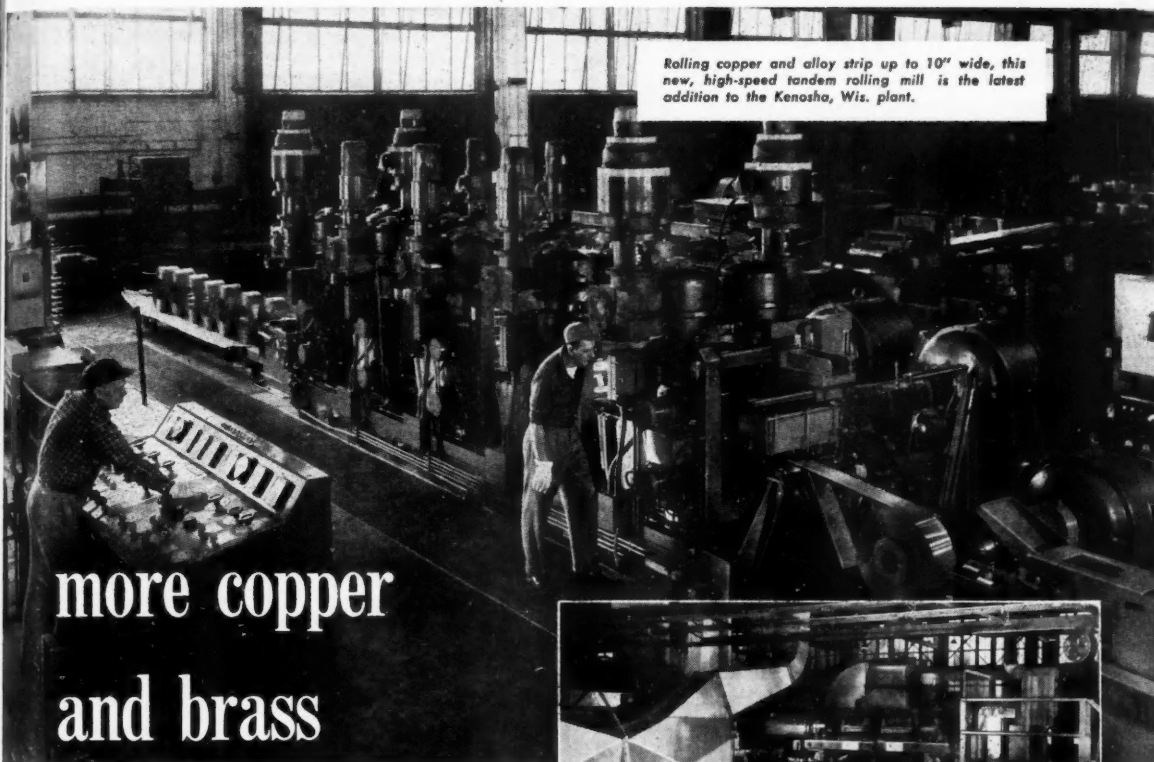
On October 6, 1955, company also announced its plan to rebuild its railroad car wheel works at Butler, Pa. The present wheel plant had been in operation for many years and was being dismantled and moved to make room for a new, continuous strip mill.

Net sales for the first half of 1955 amounted to $329,521,667, net profit $28,020.534, equal to $2.65 per share. This compares with first half 1954 net sales of $267,071,172, net profit $19,001,116, equal to $1.80 per share.

Net sales for the quarter ended June 30, 1955 were $174,748,027, net profit $15,331,411, equal to $1.45 per share. This compares with same quarter in 1954 when net sales were $135,725,096, net profit $9,863,891, or 93¢ per share.

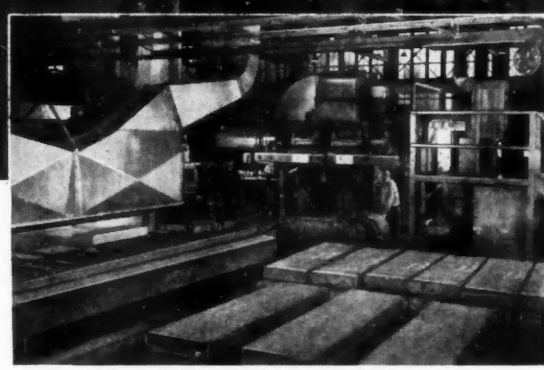
Dividends, adjusted to the 2-for-1 stock split early this year, have totaled $1.35 per share, with the latest quarterly payment of 45¢.

Prospects over coming months continue favorable. —END



Rolling copper and alloy strip up to 10" wide, this new, high-speed tandem rolling mill is the latest addition to the Kenosha, Wis. plant.

# more copper and brass for the growing middle west!



This reversing-type hot breakdown roll reduces copper and alloy cakes from 6" thicknesses to .440" gage in one process. It can handle cakes weighing up to 3,000 pounds.

In a few months, Anaconda's subsidiary, The American Brass Company, will complete its current expansion and improvement program at the Kenosha, Wisconsin, plant . . . one of the largest copper and brass mills in the United States.

The result will be an engineering dream come true. Able to handle copper and copper-alloy cakes weighing up to 3,000 pounds, this ultra-modern plant is ideally located to meet the growing demand of industry in the Middle West for copper and copper alloys in the form of sheet, strip, rod, tubes and drawn products.

Its completion will mark one more advance in Anaconda's company-wide expansion and improvement program. Through such accomplishments, Anaconda is constantly increasing its ability to serve American industry in the non-ferrous metal and metal-product fields.

55239A (Rev.)

ANACONDA

The American Brass Company
Anaconda Wire & Cable Company
Andes Copper Mining Company
Chile Copper Company
Greene Cananea Copper Company
Anaconda Aluminum Company
Anaconda Sales Company
International Smelting and Refining Company

## New World Power Line-Up

(*Continued from page* 123)

greatly increased stress has been placed on the interchange of American and Soviet ideas, the concept of "to know you is to understand you." With it has come a wave of exchange arangements, bringing to our shores for the first time Russian experts on farming, housing and other phases of American life. Although there has been a great to-do about the "friendship" value of the trips and the slit they have made in the Iron Curtain, the exchanges have had their critics here.

The argument that the cause of freedom will be forwarded by giving these visitors a look at our prosperous way of life is contested by these critics, who point out that all of the Russian visitors so far have been ranking Communist party or governmental leaders, not rank-and-file citizens. They are not likely to be swayed from their own ideological course, the critics say, but rather will pick up the technical virtues of our system, inject them into their own, and throw the rest away. The result, they say, will be agricultural progress in the USSR without any consequent ideological change.

The disagreement on this phase of our foreign policy — whether or not we ought to share our know-how with the Communists while we and they continue to arm to the teeth for an ultimate global explosion—is liable to become a chief cause of inter-party conflict in the immediate months and years ahead.

Leading members of the Senate Foreign Relations Committee have commented again and again that our main international deficiency up to now has been our failure to "sell" our way of life and our foreign policy to the world, not in terms of dollars and cents but in terms of morality. It appears inevitable at this point that our overseas information programs—aimed at the Iron Curtain as well as at our own allies—are to be accentuated from now on. Should selling our way of life include passing on information that could lead to easing Soviet domestic woes, the concept certainly will be challenged strenuously here at home.

American foreign policy in ten years has taken us to a point where our determination and ability to hold the line militarily cannot be questioned seriously. For our own part, the "spirit of Geneva" is not likely to shake that determination and ability, although the same may not be true of our allies, of which more later. It is in the American economic and propaganda policies where the chief dangers of letting up are in evidence.

In ten years we have drawn the line and the issue with world Communism, and perhaps at last we have convinced its leaders it is not in their interest to cross that line with gun in hand. The boxing gloves may be discarded, but the chess board is being substituted. This is progress on the foreign affairs front, but only progress into a second stage of conflict, less lethal perhaps but no less crucial for the free world.

Direct American-Soviet relations, of course, will dictate the ultimate decision of war or peace. But behind that major clash of interests is the field of activity that will determine how much or how little the United States can do—our policies within the free world bloc itself.

Infinitely more complex and controversial than the surface power struggle between East and West, this phase of American foreign policy will be examined at length in the concluding instalment of this article to appear in the next issue. —END

## Prospects for 40 Leading Stock Groups

(*Continued from page* 127)

which must find a more secure market level.

Investment trust stocks declined about the same in both breaks, the figures being 6.6% and 7.0%. This was about on a par with the estimated decline of 6.8% in the MWS Common Stock Index which took place in the September 26 - October 7 break. This would represent a fairly accurate measurement of the loss in asset value in these shares brought on by the general market reaction. However, in consideration of the substantial decline in some of the important stocks held in these portfolios, the investment trust shares held up remarkably well under the circumstances. This, of course, is the result of sound diversification.

The container grcup held up well in both major market declines, with this group dropping only 4.1% and 3.9%, respectively, for the two periods. This good performance would indicate that the group is still meeting investment support.

Soft-drink stocks proved somewhat more vulnerable in the latest decline than they did in March, with a drop of 7.2% recently against a drop of only 4.7% in March. Apparently, this group is meeting with less favor than it did in the earlier part of the year.

The meat-packing group acted unimpressively in both groups, with declines of 5.7% and 7.2% respectively. This group is still waiting for more tangible evidence that it has turned the corner.

TV and Radio acted somewhat better in the last break than it did in March, reacting 6.4% against 8.1%. This group apparently is offering more resistance but is still in a somewhat uncertain position for the time being.

Food brands acted extremely well in both breaks, averaging a decline of about 3.8% for the two periods. This action illustrates the typical stability of the group, even in periods of general market weakness.

Auto stocks — concentrated mainly in General Motors and Chrysler — showed somewhat less resistance to decline in the September-October break than in March but this is accounted for by the elevated position of both issues, especially Motors. Obviously, high prices make both issues more vulnerable to a general onslaught on market prices but at this writing Chrysler seems to be acting relatively better than Motors.

Public utility stocks were comparatively stable in both breaks but action in March, during the decline of that period, was superior to recent action. Probably, this has been due to an increasing desire on the part of investors to accept profits on long-term holdings which, over the years, have attained substantial proportions. However, this is most likely a passing phase as this group

(*Please turn to page* 160)

## Prospects for 40 Leading Stock Groups

(*Continued from page* 158)

offers definite long-term attractions, for serious investors, even at present levels.

Liquor stocks, on average, showed marked weakness in the September-October decline and acted much worse than they did in March. This may have been due to the desire on the part of some investors to create tax losses to offset capital gains tax.

The dairy product group acted with marked stability in the September-October break. A comparison with the March period is not feasible because figures are not available. However, current action is a tribute to the regard with which these issues are held by the investing public.

Surprisingly enough, the sugar group turned in the best performance of the lot. In the March break, this group declined a nominal 2% and, in the recent break, less than 1%. This action is in response to expectations of a widening of the profit margin for many companies. Though the situation is by no means ideal, enough improvement is in sight to warrant hopes that the sounder issues will work moderately higher.

The gold mining group showed stability in the recent market break but this group is quite independent of general market conditions. There is little reason to expect any important change either way.

Variety store stocks were quite weak during the September-October break, responding to the generally rather drab outlook for this type of business.

The tobacco group showed some sensitiveness to the generally weak market but their general action has been much better in recent months than for several years past. Apparently, the "cancer" scare is wearing off and the stocks are regaining some of their past investment standing.

### Individual Stock Action

The accompanying table shows the action of stocks compared with the action of their respective groups during important periods of the market since September, 1953. The first column shows the price of two leading stocks in each industry at the beginning of the bull market two years ago. The second column shows the price at the end of the calendar year 1954. The third column gives the peak for the period. The fourth column shows what happened during the Fulbright investigation. The fifth column gives the position at the peak for the period in July 1955. The sixth column tells what happened in the August 1955 break. The seventh column indicates the final peak for the two-year period and the last column shows what happened after the first two weeks of decline when the President took ill.

Comparing the prices of the individual stocks in each group with the group movement, the reader is afforded a fascinating picture of diversity in market action. It will be noticed in the aircraft group, for example, that North American Aviation has performed on the upside more consistently than Boeing, retaining a larger percentage of its maximum gains than the latter, although Boeing at one time had risen proportionately much more than North American Aviation.

In the steel group, U. S. Steel has acted relatively better than Jones & Laughlin. In the rubber group, Goodrich has been a more consistent gainer than U. S. Rubber.

It is interesting to note that a number of stocks listed in this table are actually selling lower than their price at the beginning of 1954, indicating that they have lost a large part of their total gain in the two-year bull market. Thus, Boeing is lower; American Airlines is unchanged; American Radiator is unchanged and Johns Manville is lower; St. Regis Paper is unchanged but International Paper is substantially higher; and finally, U. S. Rubber is unchanged whereas Goodrich still retains a large part of its total gain.

It is clear that, regardless of the fact that the "averages" reached new peaks in September, 1955, many stocks had lost ground from individual peaks established at different periods during the two-year period. Obviously, there is no such thing as consistent action for large groups of stocks or for individual stocks, for that matter. The reader must be careful not to hold to the assumption that the particular stock or stocks he owns will do well because they are represented by a particular group that, in a general way, happens at the time to act favorably. He must judge on the basis of individual performance but it will nevertheless be more valuable to him if he makes his judgment on the basis of group action as well as individual action. This will give him a better-rounded view of the overall situation as it applies to the prospects for the stocks in which he is interested. —END

## What 3rd Quarter Earnings Reveal

(*Continued from page* 129)

with a net of $63,143,000, or $4.09 a share, against $35,094,000, equal to $2.32 a share, for the first nine months of 1954. This 80% climb in net was accounted for largely by the almost insatiable demand of the automotive trade, the construction industry and the railroads, which have re-entered the steel market.

EX-CELL-O CORP., on a November 30 year, continued to improve sales and net in the third quarter. In the year-ago quarter the backlog was in decline, whereas for the most recent quarter it moved up sharply and at August 31 was about 25% higher than a year earlier. Orders received during the latest quarter ran far ahead of shipments. Earnings for the first nine months of this year amounted to $8,094,000, equal to $4.52 a share, after giving effect to tax refund of $844,572 and a deduction of $270,000 as a provision for renegotiation refund. This compares with net of $7,132,000, or $3.99 a share, in the like 1954 period. Sales for the latest nine-month period rose to $75,152,000 from $71,780,000. Earnings of Michigan Tool Co. are included in the consolidated figures for the period subsequent to March 1, 1955, when that firm was acquired. The 36-year-old company is diversified into such fields as precision parts for industry, components for military goods, machine tools and dairy packaging equipment.

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## What 3rd Quarter Earnings Reveal

(*Continued from page* 160)

NEW YORK AIR BRAKE CO. was cited in the Magazine (August 6, 1955) as an outstanding example of a railway-equipment firm that had gotten away from major dependence on its traditional business. Diversification now is paying off. For the three months to September sales rose to $10,832,000 and brought down to net profit of $627,000, or 86 cents a share. This compares with sales of $9,885,000 and net of $409,000, equal to 56 cents a share a year earlier. All divisions showed gains with the result that unfilled orders at the close of the excellent quarter totaled $18.1 million, against $14.8 million at the start of the period. On the basis of orders now on hand and the current prospects for new business, operations during the remainder of the year should assure a reversal of the downtrend sustained in 1954. For the first nine months of this year sales amounted to $29,595,000 and net was $1,430,000, or $1.96 a share. This compares with sales of $26,342,000, net of $1,331,000 and earnings per share of $1.83 in the first three quarters of 1954.

DOUGLAS AIRCRAFT earnings for the third fiscal quarter (ended August 31) rose to $2.62 a share from $2.44 reported in the year-ago period on a sales rise to $240.3 million from $205.6 million. Earnings for the nine months, however, dropped to $6.33 a share from $7.64 a year earlier. Net profit was $23,369,000 on sales of $676.1 million, against net of $28.2 million sales of $700 million in the corresponding period of 1954. While the outstanding third quarter served to narrow the gap, Douglas does not expect the trend to continue at this time. Lower earnings in the final quarter are expected, based on the prospect of fewer deliveries, especially of commercial aircraft. A sharp upturn in scheduled deliveries of commercial aircraft is expected next year. The trend to jet airliners should contribute importantly to company earnings in the years ahead. Backlog at September 30 was $1,824,218,000, of which about 25% was commercial orders and the balance military. A year ago the backlog was $1,853,681,000, with military orders making up 91% of the total.

MEAD CORP., a leading producer of magazine and book paper, and container board, celebrated its increased earnings with an accompanying declaration of a dividend increase and a dividend in stock. For the 16 weeks to October 2, net jumped to $2,794,000, or $2.07 a common share, against $1,678,000, equal to $1.37 a share in the like 1954 period. This brought earnings per share for the 40 weeks to October 2 to $4.92. from $3.38 in the year-ago period. Sales for the 40 weeks rose to nearly $105 million from less than $84 million. This 109-year-old company now is deriving major benefits from its diversified products. Once a producer of magazine publication stock only, Mead now makes more different grades of white paper than almost any other company in the field. Credit for the present gains also must be given to better prices for its products and almost continuous production of the paperboard mills along with the coming into production of its Rome, Ga., plant. —END.

## Uranium Boom Over

(*Continued from page* 139)

as demand rises.

Figures are not available on the total production or price of thorium, due to the restriction of the atomic program. Thorium metal, however, has been expensive. Last published quotation was about $200 a pound in 1951. The non-atomic markets for thorium are met primarily by such companies as Union Carbide and Carbon, Lindsay Chemical, Mallinckrodt Chemical Co., Maywood Chemical Works and Rare Earths, Inc. The Government carries out a stockpiling program under the General Services Administration. A $10 million thorium processing contract with the A. E. C. is held by Lindsay.

### Breeder Type Spells Trouble

If thorium poses a threat to uranium, then the development of the "breeder-type" reactor could do them both in. There is widespread speculation about the feasability of such reactors, which would produce more nuclear fuel than they consume. If such a development were realized it would undermine the market for uranium and thorium.

Hundreds of companies which were capitalized at less than $300,000 (often a mere fraction of that figure), and therefore not subject to registration with the Securities and Exchange Commission, are dying on the vine. Others will be lucky if they can make a deal to sell out to the bigger, better-financed companies. Announcement by the Canadian authorities that they will not enter into any more special-price contracts to buy uranium after the end of March, 1956, represents a severe blow to those companies operating north of the border.

It must be clear by now that untold millions of dollars poured into the stocks of obscure uranium promotion-exploration companies, which have no actual production, are down the drain. At the same time, uranium may be expected to continue as the leading fuel of the atomic age for the foreseeable future and to produce the first large flow of atomic power. It will be in demand by private industries as well as governments. Thus, the topnotch producing companies should be able to reap a substantial profit over the next several years.

In this country, numerous utility companies are well advanced with plans for the construction of atomic energy plants designed to produce power. In addition, atomic-fueled power plants are slated for three Latin American countries. American & Foreign Power Co., a leading international utility holding company, is prepared to place orders for these plants. Each of the new South American plants will have a capacity of 10,000 kilowatts and will be built for regular utility purposes. A key difficulty in negotiations on power reactors is disposal of spent, or "burned," atomic fuel. In any reactor operation, fissioning uranium produces plutonium, which when separated from other products in the fuel could be used to make atomic

(*Please turn to page* 164)

## Uranium Boom Over

(*Continued from page* 162)

weapons. Government policy has been to require return of spent fuel to this country for processing. Since this is the first instance of an American firm proceeding with installation and operation of commercial power reactors abroad, considerable pioneering will be required.

### Uranium Raises Other Problems

Uranium has been raising a multitude of problems since the atomic age was born in World War II. It has spawned bustling towns with uranium prospectors coursing the streets. Grants, N. M., which has attracted the Anaconda people as well as thousands of small prospectors, is threatened with bankruptcy, due to heavy expenditures for sewer, water and other facilities. A group of Texas business men has offered to buy Grants for $500,000, the very sum the town would like to borrow from the Government to avert bankruptcy.

Clerks, storekeepers and housewives, many of whom never before owned a share of stock, have been prime prospects for peddlers of penny uranium stocks and the turnover on the Salt Lake City Exchange some days is higher in share total than the New York Stock Exchange. Others have left their jobs and homes to prospect for the ore. Thousands of people in the Rockies region have a sizable stake in the future of uranium. Many investments are jeopardized by the lack of trained technicians at remote sites.

### Rapid Strides Cited

The uranium mining industry has broadened the scope of its activities, to include besides the Colorado plateau, the Spokane Indian Reservation, the areas southeast of San Antonio, Tex., and parts of the Dakotas. Promising prospects have been found in New Mexico, Arizona and other Western states. Total tons of ore produced in the past 12 months have been on the order of 40% greater than in the preceding year. New ore haulage roads have been projected, aggregating over 1,000 miles, at a cost to the Government of nearly $8 million. During August, uranium ores were milled at a rate nearly four times higher than in 1952, with probability that by 1956 the milling rate will be over five times greater.

There has been an increasing amount of drilling by private companies. For 1955, it is likely that 5 million feet of hole will be drilled. Today some 25 deposits are known to contain reserves in excess of 100,000 tons and a few are believed to have reserves in excess of a million tons.

### A Political Mineral

Uranium is a political mineral, whatever its other attributes may be. Its only widespread use these days is in military applications. Potential practical commercial applications, which will develop during the next decade, are substantial, but much smaller than the continuous furore about atomic energy would have the investor believe. Since the major market for uranium will be the defense establishment during the next many years, political considerations are certain to dominate the economics of this era. There are such facets to the situation as the temperature of the cold war, the politics of buying uranium from our allies or their colonies as an aid to their economy and domestic political considerations. Thus, the Administration would have to have extremely good reasons for ceasing to buy uranium if the dozen or so senators who are elected by uranium-producing states are to be satisfied.

A practical aspect of uranium politics is that the cost of the present purchasing program is not large alongside other expenditures. Domestic production last year may have totaled 1.5 million tons of ore. At a typical $35 a ton, price would be only a little more than $50 million. Considering the small sums involved and the immense political importance of the mineral, it is scarcely likely that there will be a vital change in the ore-buying policy in the near future.

As for commercial nuclear energy, it will take years to build enough reactors to provide a large market for uranium. Even if the engineering and economics were clearly determined — and they are not, as of this date — it would take several years to build and put into operation a large new power plant. Thus, to predict that commercial nuclear power will not be big business within the next few years is not to be pessimistic—merely realistic.

With scientists unable to agree on whether the atomic age belongs to uranium, thorium, breeder reactors, plain sea water—or a combination of these—it is an impossible task for an investment analyst. The outlook, meanwhile, for the uranium mining industry is uncertain, a condition that should end the heyday of the moose pasture operator and make the stock speculator wary of uranium bonanzas. —END

## What You Should Know About Highway Bonds

(*Continued from page* 147)

bridge the indicated revenue gap.

### Superhighway Giant

Although the Jersey Turnpike is the daddy of all roadways as a money-maker, it could, in time, be displaced by the New York Thruway, which traverses that state for some 500 miles—three times the size of Jersey's. Important connections have yet to be completed, hence appraisal of the earnings potential are premature. In October, an additional $50 million of state-guaranteed Thruway bonds were sold to a 92-member group headed by Chase Manhattan Bank for a net interest cost of 2.5146%. The net interest cost of this issue represented the lowest interest cost of any of the five preceding issues of Thruway bonds, either guaranteed by the state or revenue bonds. The Thruway has been offering bond issues since May, 1953. Including the latest issue, the New York State Thruway Authority has outstanding $300 million of state-guaranteed bonds, $350 million of revenue bonds and $50 million in notes.

For the first six months of 1955, the Thruway collected $5,290,460 from tolls and permits. When the connections to the New York City area are completed early next year the rate of income should rise substantially. The record for the full year of 1956 will tell the story.

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## What You Should Know About Highway Bonds

(*Continued from page* 164)

Meanwhile, it is sobering to keep in mind that the estimated interest charges on the Thruway's revenue bonds alone are projected to run to more than $5 million for a six-month period. This means that there must be a substantial increase in Thruway use if its earnings are to become an appreciable force in meeting interest charges, not just on the prior lien revenue-secured bonds, but on the $500 million of full-faith-and-credit debt to which the state's voters gave their consent when the project first was broached. Also sobering is the realization that the Thruway, while promoted officially as a $500 million venture, is going to cost about twice that amount.

### Estimates and Costs

The failure of Thruway officials to come even close to estimating actual costs highlights a problem that is of deep concern to holders of highway bonds. It is not enough for them to know that interest is being paid promptly. That is practically assured in the financing arrangements. They need to be kept up to date on progress of the project, on how contract costs compare with original estimates, whether the bond proceeds are earnings as much as expected and how soon the road will start operating from terminus to terminus.

The Ohio Turnpike was outstanding, opening for traffic its entire length on the scheduled date. Another outstanding example is the Florida Turnpike, a $74 million project financed in recent months. Costs thus far have been $7.3 million under financing estimates. This has encouraged the Florida State Turnpike Authority to extend the road six miles farther south than originally planned. It believes the extension, calculated to boost revenues $400,000 in the first year of operation, can be carried out without raising the original bonded indebtedness. The Oklahoma Turnpike also shows costs of work contracted for to be $1.4 million under preliminary estimates.

### Turnpike Revenues Climbing

Turnpikes are prospering in most parts of the country. Thus, in Colorado, the Denver-Boulder Turnpike's June revenues were up 13.2% from the like 1954 month. In Washington State, the Tacoma Narrows Toll Bridge showed a 6% increase in revenues for the first six months of 1955 from the same period last year. In Oklahoma, the Tulsa-Oklahoma City Turnpike had a rise of 14% in revenues for the first half, compared with the 1954 period. In Illinois, the Veterans Memorial Bridge at East St. Louis had June earnings 9% above those of June, 1954.

In the light of this kind of growth, more and more states have become convinced that toll roads are the only means of solving their highway problems. States such as Jersey and Connecticut are what might be termed "bridge" states. The bulk of their traffic comes from out of the state and the residents simply can't support by themselves the highway system needed to handle the traffic. What many state officials would like is for the Federal Government to underwrite toll-road bond issues, at least in part. This would enable the states to market their bonds at a more attractive rate.

Railroads have been less than enthusiastic about the trend to toll roads, After all, these are long-haul transportation facilities performing exactly the same service that the carriers do. They note with bitterness that the railroads are assessed heavy taxes on their property while the toll roads are exempt from property taxes. At least, every state, with the exception of Texas, has decided the pay pikes should not be taxed. In Texas, the Legislature, in creating the Texas Turnpike Authority in 1953, went along with the rest of the states and approved tax exemptions. The State Supreme Court, however, decided otherwise. Thus, private capital, backing toll roads in Texas, must pay the same taxes that any other common carrier facility pays, return a good profit to investors and still turn the property over to the state without cost in 20 to 30 years. The Texas example is not likely to be followed in many other states.

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## What You Should Know About Highway Bonds

(*Continued from page* 166)

It will be interesting to watch developments growing out of the court decree. The 223-mile Dallas-Houston pike, to be built by the privately-owned Texas Turnpike Co., is seeking sale of a $130 million issue. The investment community is uncertain whether the issue can be sold at a reasonable rate in the current market. The bonds would be exempt from Federal income levies, but property of the vast private company would be subject to local property taxes. The Texas Turnpike Co. tried to sell its bonds earlier this year, only to find there was not sufficient demand.

Another bond issue that faces rough going is the long-deferred $400 million issue to finance three toll roads in the Chicago area. This king-size issue, slated for the market this fall may not be salable in a tightening bond market at an interest rate the Illinois toll-road agency could accept. The issue would be the biggest toll offering to date.

In summing up, it would appear that the toll-highway grid of the nation—built, building or authorized—is far more extensive than anyone would have dared to predict a decade ago. However, extension beyond heavy industry and population concentrations of the Northwest and Great Lakes states poses difficulties. There are exceptions, of course, such as the heavy-hauling oil country. In general, though, it takes the great metropolitan centers to support in style a money-maker like the Jersey Turnpike. There is no way of telling how much dormant traffic is waiting to be tapped by an up-to-date interstate system. With 60 million vehicles on the road and the automotive industry turning out another 8 million annually, it will be many years before this country has the kind of highways essential to keep traffic moving smoothly in its built-up areas.

Investors in toll-highway bonds should make every effort, through available channels, to ascertain what is behind these indentures, traffic outlook and other vital data. It is well to remember that engineering estimates have been known to err either way. Only independent judgment deriving from a thorough-going knowledge of this field will do. —END.

## Philadelphia Electric — A Utility with Dynamic Prospects

(*Continued from page* 142)

at a comparatively low cost in fuel and labor.

In carrying out its construction program, Peco, since 1944 has almost doubled its plant and property account which has increased from $430.2 million at the end of the earlier year to $812.6 million at the close of 1954. Peco's annual provision for depreciation is substantially the same as the amount of normal depreciation used in computing Federal income tax accruals. It has also been granted Certificates of Necessity covering approximately $48.6 of construction costs over 5-year periods, $40 millon of which certified facilities were completed to December 31, 1954, with the balance of about $8.6 scheduled for completion in 1955. However, in order that net income not be subjected to fluctuations by reason of tax deferments, an amount equal to the reduction in taxes on income is credited to "Earned Surplus — Restricted" for use to offset the consequent increase in taxes after the amortization periods end. This is a policy that reflects Peco's effective operating methods and its sound financial structure.

The company has paid dividends annually during the last 53 years, or since its organization in 1902. Since 1949 it has increased its dividend rate 50%, bringing the current rate to $1.80 a share, payable 45 cents quarterly. The common stock which has ranged so far this year between a high of 43 and a low of 37½ is currently selling around 39, is attractive as a good-quality investment issue yielding 4.6% with above-average long-range growth potential. —END

**In the Next Issue**
**Position and Outlook**
**For**
**100 Leading Active Stocks**

## As I See It!

(*Continued from page* 117)

with the Arab world must be retrieved. But, in the effort, we must take care not to sacrifice Israel, the one truly democratic nation in that part of the world.

Mr. Dulles deserves all our sympathy and support in the formidable task which is thrusting itself upon him with terrifying speed. But he should know by this time that appeasement won't work. Still, the United States has immense power to work its will—which will be not only in its own interest but in that of the entire Arab world itself. It should use this power resolutely. If, in the process, it must inflict a few wounds here and there, it should not shrink from the task which is imposed upon it. Failure to do this is tantamount to withdrawal from a vast region highly essential to the safety of the free world, and abandonment of it to the Communists. —END

# BOOK REVIEW

### The Scotswoman
By INGLIS FLETCHER

Inglis Fletcher here returns to the period which in the memorable *Raleigh's Eden* and *Toil of the Brave* yielded such rich story. That is to say, this is a novel of the American Revolution and more particularly of its regional origins and first conflicts. It faithfully and dramatically restores one of the most romantic but least known episodes in our early history.

For this is the American story of Flora MacDonald, whose Scots valor and feminine compassion once saved the fugitive Bonnie Prince Charlie. Though the famous thrills of that episode in the Hebrides are freshly illuminated here, the story centers in the North Carolina sequel—an almost lost chapter of American history which is even more moving and more revealing of Flora's nobility and brave resolve.

As always in an Inglis Fletcher novel, action, adventure and romance abound. Sword-play, a storm at sea, an attack by pirates, political intrigue, the hazards and difficult choice faced by Scots clansmen who are torn by conflicting loyalities in an alien land, two love stories played out against the background of the tensions and passions of revolution, the grand climax at the battle of Widow Moore's Creek Bridge—these are elements in a plot that skillfully integrates fiction and

For the first time in her distiguished career Mrs. Fletcher has elected to make a historical personage the principal character in a novel. Flora MacDonald is her finest achievement.

Merrill $3.95

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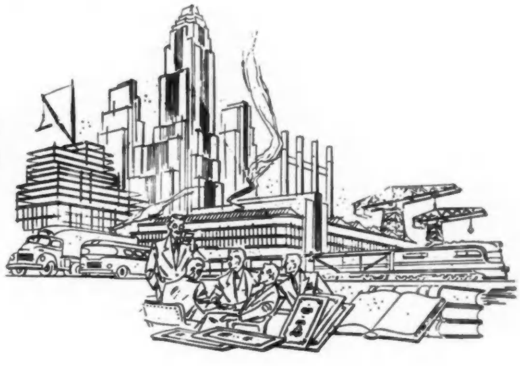

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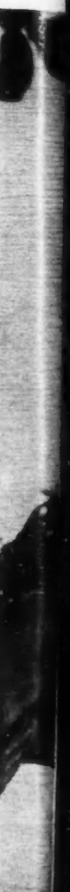

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